United States Steel

CORPORATION / ANNUAL REPORT 1965

What is U. S. Steel?

U. S. Steel is an employer directly of some 200,000 people and indirectly of many thousands more people through its purchases of materials, supplies and services.

Using billions of dollars of production facilities provided by the savings of hundreds of thousands of investors, the employes in 1965 produced and sold steels and other products and services for about $4.5 billion. Of this amount, more than 41 per cent was paid to or for the benefit of employes and, after other expenses, about 6 per cent was left for owners. Almost half of this was paid to them as dividends and the balance was reinvested in the business.

The major portion of total receipts from customers was related to their purchases of steel. U. S. Steel produces and sells a complete line of steel products; among these products are sheets and strip, plates, bars and rods, structural shapes and piling, pipe and tubing, tin plate, black plate, galvanized products, wire and wire products, rails and track work accessories and railroad wheels and axles. These products are available in carbon grade, and many are also available in alloy and stainless grades.

Iron ore, limestone, pig iron, ferromanganese, cement and chemicals are also produced and sold. U. S. Steel also operates coal mines and coke ovens; sells transportation services; fabricates steel for and erects bridges, buildings and other steel structures; manufactures and sells oil field drilling and pumping equipment, drums and pails; and operates warehouses as steel service centers.

To conduct these many phases of its business, U. S. Steel operates mines, plants, quarries and transportation facilities in 37 states. Outside the United States it also has mining, transportation, and cement producing operations and investments in companies engaged in steel manufacturing operations and manganese mining.

Receipts and Their Disposition in 1965

	Total Dollars in millions	Dollars per employe*	Dollars per man-hour*
Receipts from customers—the public	**$4,465.0**	**$21,714**	**$11.53**
Disposed of as follows:			
Employment costs—U. S. Steel's direct employment	1,863.8	9,064	4.81
Products and services bought—Provides employment by suppliers and by their suppliers in turn	1,624.8	7,902	4.20
Wear and exhaustion—Provides employment by suppliers of new plants and equipment and by their suppliers in turn	324.5	1,578	.84
Taxes—Provides revenue for governments	345.5	1,680	.89
Interest—Compensation for savings loaned	30.9	150	.08
Dividends—Compensation for savings invested	133.5	649	.34
Income reinvested in business	142.0	691	.37
Total	**$4,465.0**	**$21,714**	**$11.53**

* Excluding employes (1.5 per cent of total) the cost of whose work was charged to construction.

Sixty-fourth Annual Report • United States Steel Corporation

71 BROADWAY, NEW YORK, N. Y. 10006 • 525 WILLIAM PENN PLACE, PITTSBURGH, PA. 15230

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1966 ANNUAL STOCKHOLDERS' MEETING
will be held at The Statler Hilton Hotel, Cleveland, Ohio, on Monday, May 2, 1966, at 2:00 p.m.

In this report, amounts in round numbers are approximate. "U. S. Steel" refers to parent corporation, subsidiaries, or both, as required by context. USS, PRIME RIB, SOLO and "T-1" are trademarks of U. S. Steel.

Steel spanning nature's beauty. The Taos Rio Grande Gorge Bridge—longest highway span in New Mexico.

The Year 1965 for U. S. Steel – At a Glance

		1965	1964
Sales and Shipments	Amount	$4,465.0 million	$4,129.4 million
	Steel products shipped	22.5 million tons	21.2 million tons
Income	Amount	$ 275.5 million	$ 236.8 million
	Return on sales	6.2 per cent	5.7 per cent
	Per common share	$ 4.62	$ 3.91
Dividends and Income Reinvested	Declared on preferred	$ 25.2 million	$ 25.2 million
	Declared on common	$ 108.3 million	$ 108.3 million
	Per common share	$ 2.00	$ 2.00
	Income reinvested	$ 142.0 million	$ 103.3 million
Taxes	Amount	$ 345.5 million	$ 322.6 million
	Per common share	$ 6.38	$ 5.96
Production	Ingots and castings	32.6 million tons	32.4 million tons
	Per cent of 1957-59 average	119.3	118.4
Property Expenditures	Spent in year	$ 353.6 million	$ 292.6 million
	Authorized at year end	$ 735.0 million	$ 655.0 million
Marketable Securities Held for Property Expenditures	At year end	$ 655.0 million	$ 655.0 million
Working Capital	At year end	$ 890.6 million	$ 826.4 million
Total Long-Term Debt	At year end	$ 727.2 million*	$ 766.5 million
Ownership—Stocks and Income Reinvested	At year end	$3,624.9 million*	$3,482.7 million
Stockholders	Common and preferred	372,513	368,771
Employes	Average number for year	208,838	199,979
	Average hourly employment cost	$ 4.81	$ 4.74

* See note on page 26 for effect of change in capital structure on January 1, 1966.

ROGER M. BLOUGH
Chairman of Board of Directors

A SUMMARY OF 1965 EVENTS

This was a year of continued progress and achievement for U. S. Steel—a year marked with events which not only affected 1965 results but also posed significant challenges and opportunities for future years. Highlights of the year 1965 are shown in the "At a Glance" summary on the opposite page.

Shipments and income improved over the previous year, continuing the upward trend from the low levels in the year 1962.

Many new facilities started operation, many are under construction, and more have recently been authorized. To excel in the competitive race and to increase participation in the growing steel market, an enlarged program for facilities was announced. This program calls for annual expenditures during the next three years averaging double the annual rate of the past five years.

Another important aspect is the vigorous research and development program, which involves the search for greater knowledge and the translation of knowledge into new products and more efficient processes. Research expenditures have tripled in the last ten years. This enlarged research program will be continued and expanded.

During 1965, many new products were introduced, and the activities aimed at expanding U. S. Steel's markets were intensified.

The stockholders approved a change in the state of incorporation from New Jersey to Delaware and changes in the capital structure through an exchange of the preferred stock for subordinated debentures and an increase in the par value of the common stock. These became effective January 1, 1966.

Labor negotiations during 1965 were of significance. Shipments and income were at high levels in the first quarter because of advance buying by customers in anticipation of a possible work stoppage at the termination of the labor contract on May 1. When this contract was extended, the advance buying continued for some time, thus keeping the second and third quarters also at a high level. With the signing of an agreement in September, shipments and income declined in the fourth quarter.

The increased employment costs resulting from the labor settlement are only partially reflected in 1965 results. There are additional wage and benefit increases required for 1966 and 1967. There are also added employment costs in these years to cover the legislated increases in social security taxes, including medicare.

Even though total steel shipments by the industry were at a record level for the year, as was steel consumption, there was a substantial increase in steel product imports and a decrease in steel exports—partially as a result of the high demand brought about by protective buying during the prolonged labor negotiations. Cost increases and the growth of imports are formidable competitive factors that must be overcome.

Although there have been numerous upward and downward price changes, the general level of steel mill product prices has been remarkably stable over the past seven years.

As the year ended, steel industry shipments were at a lower level than the rate at which steel was being consumed in the economy, because customers were reducing their previously built-up inventories. As the rate of inventory reduction slackens, shipments should again approach the level of steel consumption.

The pages which follow cover many events of 1965 for U. S. Steel. There is also a message concerning the public interest of private enterprise.

A REVIEW OF 1965

LESLIE B. WORTHINGTON, *President and Chairman of Executive Committee*

ROBERT C. TYSON
Chairman of Finance Committee

Shipments and Income

Shipments of steel products were highest during the first and second quarters, declined moderately during the third quarter, and then fell sharply during the fourth quarter as customers began to liquidate their inventories acquired earlier in the year. Shipments for the year were 22.5 million net tons—about 7 per cent over 1964 and the highest level since 1957—but tonnage increases alone give no recognition to the greater utility of today's steels. The $4.5 billion volume of products and services sold was at a record level.

Ingot production in 1965 was 32.6 million net tons, nearly the same as during 1964. Production in 1964 included some tonnage for building U. S. Steel's inventories in anticipation of increased demand by customers in early 1965.

Income increased 16.3 per cent to $275 million and represented a return of 6.2 per cent on sales, compared with 5.7 per cent in 1964. The advance buying during the first three quarters also increased earnings for these quarters in relation to the year as a whole. Earnings declined in the fourth quarter when shipments declined about 28 per cent below the average of the first three quarters.

Dividends totaling $7.00 per share on the preferred stock and $2.00 on the common stock were declared for the year 1965—the same amounts as for 1964. The final dividend on the preferred stock, in the amount of $1.75 per share for the fourth quarter of 1965, was declared in November 1965 and was paid on January 1, 1966.

Steel Outlook in the Economy

The most frequently quoted measures of steel activity in the economy are tons of ingot production and, sometimes, shipments or, at other times, consumption. While there are no complete data available on steel consumption, best estimates indicate that it continued at a high level throughout the year. A peak year of automobile and truck production, as well as high-level activity in the machinery, construction, and railroad industries, among others, contributed to the record level of steel consumption.

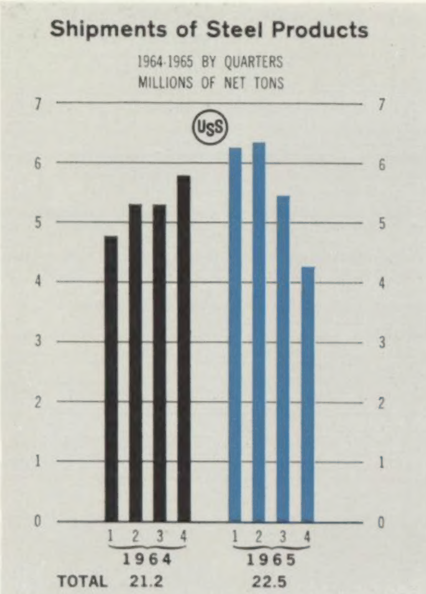
Consumption is estimated to have exceeded 93 million tons, a record level for the third year in a row. Industry ingot production and steel shipments were also at record levels of 131 million and 93 million tons, respectively.

This record year, however, was not without its problems for producers. The demand for steel was artificially stimulated during the first three quarters of the year. In spite of an extremely high level of production and of shipments by American producers to meet the temporarily inflated demand, steel imports increased to about 10.5 million tons—compared with 6.7 million tons in 1964—and amounted to about 11.5 per cent of all steel consumed in this country. Exports were 2.8 million tons in 1965, 0.9 million tons less than in 1964.

After some inventory reduction in 1966, shipments should again approach the level of consumption.

Labor Matters

The United Steelworkers of America served notice on January 1, 1965, that it wished to terminate the existing contract as of May 1, 1965. Discussions which had commenced prior to this notice were broken off in early January because of the union election campaign and were resumed in early March. In order to avoid a work stoppage and to provide more time for negotiations, an extension agreement of four months' duration was signed on April 28 which provided for the accrual of an employment cost increase of 11½¢ per hour worked during this period. This accrual was discontinued when the extension agreement was terminated effective September 1, and the money accrued during this period was paid to employes in December.



Negotiations toward a final settlement continued during the extension period. The negotiators were called to Washington on August 30 and, under Presidential auspices, the contract termination date was extended an additional eight days. A final agreement was signed on September 6, effective September 1, 1965. The major provisions of this agreement are shown in the table on page 6. These and other details have already been furnished to stockholders in the U. S. STEEL QUARTERLY and to employes in the U. S. STEEL NEWS.

This agreement extends to at least August 1, 1968, and provides for substantial cost increases. In addition to these contractual increases, there are legislated cost increases for social security taxes (including medicare), and there may be continuing increases in costs for present hospital and medical benefits under the terms of the insurance agreement with the union.

Comparable increases in wages, salaries and benefits were also negotiated for certain union-represented clerical, technical and other employes, and appropriate adjustments were made for other salaried employes.

Wages, salaries and benefits of employes in operations outside the United States follow the patterns and customs that prevail in the countries where such operations are located.

Steel Prices

The general level of finished steel prices at the end of 1965, as measured by the government's index compiled by the Bureau of Labor Statistics, was about 1.7 per cent higher than it was at the end of 1958—seven years ago. There have been numerous price changes on individual steel products during this period, but increases on some products have been largely offset by decreases on other products or even by later decreases on products which had been previously increased.

There are literally thousands upon thousands of different finished steel products. Prices change frequently, both upward and downward, in accordance with competitive forces in the marketplace. This is illustrated by the movements in the index. From the end of 1958 to early 1963, when demand was down from the 1955-57 level, the price index trended downward by about one per cent. With improved demand, prices moved upward during 1963 and at year end averaged about three-quarters of one per cent above the December 1958 level. Shipments during 1964 and 1965 were at then-record levels and price changes, upward and downward, continued during this period. The net change added less than one per cent to the price index.

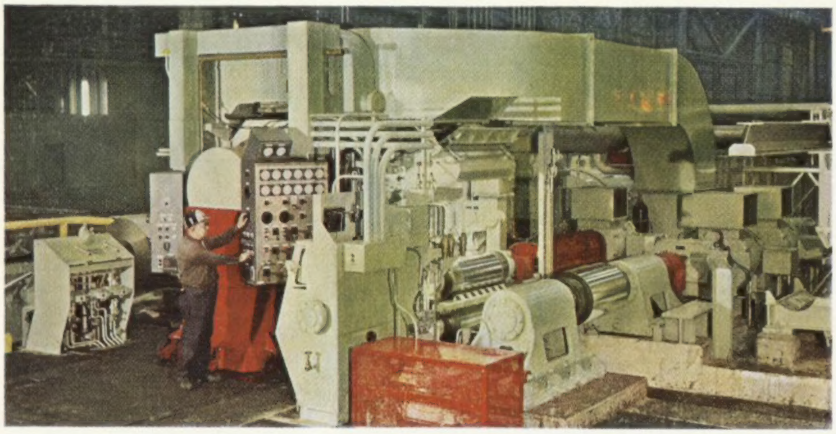
However, changes in price indexes do not necessarily measure changes in ultimate costs to buyers since the index does not take into account the greater utility of today's steels. This

New technology on the horizon. U. S. Steel's new, large-scale continuous casting unit under construction in the Chicago area will convert steel from the Basic Oxygen Process shop into large slabs for the 84-inch hot strip mill.

The New Labor Agreement – Major Changes

PRODUCTION AND MAINTENANCE EMPLOYES OF STEEL PRODUCING OPERATIONS

	1965 / 1966 / 1967	
Wage Rates and Vacations	**Sept. 1, 1965**	Increase standard hourly job class rates by 10¢ per hour plus 0.3¢ increase in increments between job classes; the existing 18.5¢ cost-of-living adjustment included in standard hourly wage rates.
		All incentive earnings are calculated on the basis of standard hourly wage rates in effect prior to September 1, 1965.
	Jan. 1, 1966	All existing trade and craft jobs increased by two full job classes; jobs of millwright and motor inspector given craft status, raised two job classes and given schedule of apprenticeship training and rate schedules.
		Under certain conditions, vacation allowances may be paid in lieu of part of regular vacation time off in excess of two weeks and for three weeks of extended vacations. Provisions also permit greater flexibility in scheduling vacations.
	Aug. 1, 1967	Increase standard hourly job class rates by 6¢ per hour plus 0.2¢ increase in increments between job classes.
Increased Pension Benefits	**Aug. 1, 1966**	For employes retiring on or after July 31, 1966, minimum pension increased to $5 per month for each year of service, up to a maximum of 35 years; a decrease from $80 to $60 in social security deductions applicable to certain pensions; employes with 30 years' service regardless of age become eligible for full pension, less applicable deductions, under a sole option provision; employes retiring due to permanent disability or by reason of permanent shutdown, layoff or physical disability or under mutually satisfactory conditions and meeting requirements for early retirement pension, to have regular pension increased by $75 a month until eligible for full social security. U. S. Steel announced a $15 monthly increase in pensions (other than deferred vested) for those retiring prior to July 31, 1966—actuarially reduced where appropriate.
Improved Insurance Programs	**Aug. 1, 1967**	Full reimbursement, on a "prevailing fee" basis, for covered doctors' charges; hospitalization benefits for up to 2 years for employes with 10 or more years of service; hospital and surgical benefits coverage for dependent children up to age 25 if full-time students, no age limit if totally disabled; weekly amounts of sickness and accident benefits increased to an average of $80 and extended to up to 52 weeks for employes with 2 or more years of service; an additional 6 months of coverage (other than sickness and accident) for employes with 10 or more years of service who are laid off or become disabled; schedule of life insurance after retirement increased $500.
Term of Agreement		The basic agreement remains in effect until terminated by either party upon 60 days' advance notice but in no event shall it be terminated before August 1, 1968. The amended pension, insurance, savings and vacation plan and supplemental unemployment benefits provisions remain in effect until at least January 1, 1969, subject to negotiation at the same time as the basic agreement.



Foil for the future. U. S. Steel recently put "on stream" the first rolling mill designed exclusively for commercial production of tissue-thin steel foil.

is so because today a lesser quantity of steel and less customer processing are required to do the same job than was the case with steels of just a few years ago.

Merger on January 1, 1966

On January 1, 1966, United States Steel Corporation, a New Jersey corporation, was merged into a wholly-owned Delaware subsidiary company and the name United States Steel Corporation was retained. This action was approved by stockholders at a special meeting on November 24, 1965.

The merger also involves the exchange of the outstanding $100 par value 7% cumulative preferred stock of the corporation for 4⅝% Subordinated Debentures Due January 1, 1996, at the rate of $175 principal amount of debentures for each share of preferred stock. As the debentures were issued in denominations of $100 and multiples thereof, those preferred stockholders entitled to receive a fractional interest in a $100 debenture received cash equal to the face value of such fractions. Also, holders of five shares or less were given the opportunity to receive cash for their shares.

The merger also involved the conversion of the outstanding common stock of the New Jersey corporation, par value $16⅔ per share into common stock of the Delaware corporation, par value $30 per share. For further details see Notes to Financial Statements on page 26.

The subordinated debentures, registered both as to principal and interest, are not redeemable on call prior to January 1, 1976. A mandatory sinking fund requires payments sufficient to redeem $20 million principal amount annually in the years 1976 through 1995. The sinking fund is calculated to retire approximately 63 per cent of the issue prior to maturity. Sinking fund payments may be doubled in any of these years.

The debentures may be redeemed at the option of U. S. Steel at specified redemption prices, starting at 103 per cent of principal amount during 1976 and decreasing annually to 100 per cent of principal amount in 1991 and thereafter. Interest is payable semi-annually on January 1 and July 1. The debentures are listed on the New York Stock Exchange.

Anti-Trust Matters

It has been and continues to be the policy of U. S. Steel to comply with all applicable laws, including the anti-trust laws. In 1961, this long-standing policy was re-emphasized to management employes through letters from the president followed up by meetings conducted by the law department, and this compliance program has since been intensively pursued.

Several indictments for alleged anti-trust law violations, involving matters that for the most part preceded 1961, have been terminated by pleas of nolo contendere. In one criminal proceeding which was contested, a jury in Ohio returned a verdict of not guilty.

Following the disposition of West Coast criminal proceedings involving pipe by pleas of nolo contendere, civil actions for damages were commenced by the Federal government, three state governments and several other litigants. Also, following a plea of nolo contendere entered in criminal proceedings in New York involving railway car wheels, civil actions for damages were instituted early in 1966 by certain transit systems and other purchasers, and additional actions may be started. It is believed that any liability which might result from these actions will not be material.

U. S. Steel will vigorously continue its efforts to assure that every one of its employes understands that any practice which is contrary to law is also contrary to the policy and to the best interests of U. S. Steel.

Contributions

U. S. Steel made contributions for educational and charitable purposes during 1965 of $6.9 million. This sum included $6.0 million paid in December 1965 to United States Steel Foundation, Inc., a non-profit corporation which was formed in 1953 to provide aid for charitable, educational and scientific organizations and activities. A report of the Foundation is available upon request to its offices at 71 Broadway, New York, N. Y. 10006.

Facility Plans

In August 1965, a facilities program was announced calling for expenditures averaging over $600 million a year for the next three years—a rate about double that of the average of the past five years. This enlarged

Feeding a new furnace. Molten iron is being poured into one of the three furnaces in the new Basic Oxygen Process shop which began initial operations in the Chicago area during 1965.

program will affect virtually every aspect of the company's activities.

Inevitably in a program such as this, which is directed to meeting the competitive challenge of other producers—both at home and abroad—and of other materials, there will necessarily be some geographical redistribution of facilities and reallocations of production which will affect certain operations. When such dislocations occur, as some did in 1965, they do so only after full consideration is given to the human and economic factors involved. While these actions regrettably are disturbing to employes and communities affected, such decisions are a competitive necessity if U. S. Steel is to continue as a profitable job-providing enterprise.

During 1965, construction projects requiring $434 million for replacement, modernization and expansion of facilities were approved.

At the end of 1965, the amount required to complete presently authorized projects was $735 million, an increase of $80 million from the prior year end. Amounts set aside to cover in part such authorized expenditures totaled $655 million, the same as at the end of 1964. Almost half of this unexpended amount has already been committed to suppliers, and construction is under way on much of it. Detailed engineering is progressing on the remainder of the projects.

These approved projects, both large and small, include facilities for practically every phase of U. S. Steel's operations and products—from mining through steel finishing, warehousing and fabrication, cement production and transportation.

Facilities in 1965

Expenditures for plant and equipment increased to $354 million—more than 20 per cent above the prior year. This level of expenditures was somewhat less than had been expected because of several factors: delays in delivery of equipment by suppliers during a period of peak demand for machinery and equipment; shortages of skilled personnel to design, engineer, build and install today's more complex equipment; and, in the Chicago area, work stoppages by certain craft workers employed by contractors. Toward year end, the tempo of capital spending increased. A substantial increase is expected in 1966.

The property expenditures covered a wide range of facilities. More efficient coal cutting and loading machinery, more efficient material handling equipment, rebuilt and enlarged blast furnaces incorporating the latest technology in design and controls and new high-speed numerical tape control machine tools were provided. New facilities also included additional heat treating equipment, more efficient straightening and flattening machinery, better quality control and inspection tools, and warehouse and building additions to ensure faster service to customers. More modern computer equipment was added to speed up handling of all the paper work involved from time of receipt of an order to shipment of product.

Late in 1965, a new three-furnace Basic Oxygen Process shop started operation in the Chicago area. This unit can produce substantially more tonnage than the 17 open hearth furnaces which it replaces.

A new electric resistance weld pipe mill for producing thinner-walled, longer-length pipe in sizes of $2\frac{3}{8}$ inches to $6\frac{5}{8}$ inches in diameter began operation in the Cleveland area. It complements a new mill in the Pittsburgh area which produces this product in larger sizes up to 20 inches in diameter.

A new electrolytic tinning line for the production of high quality, light weight, thin tin plate began operation in the West. Nearing the start of break-in operations is a new facility in the East for coating steel with materials such as aluminum by a vacuum deposition process developed by U. S. Steel research. This product, which will complement conventional tin plate and other packaging materials, will be available to can makers and other manufacturers in generally the same range of sizes and coil weights as tin plate.

A new continuous heat treating furnace which provides a greater degree of uniformity of internal structure and softness in the production of rods and wire started operation in the Cleveland area. Nearing the start of operations in the East is a new electrogalvanizing line for the production of wire with thick zinc coatings used in strand and rope products.

Facilities under Construction

U. S. Steel's first high-capacity, continuous casting unit is scheduled for operation in 1966. This unit will produce large steel slabs without the conventional requirements of ingot teeming, stripping, soaking pit heating, and primary mill rolling.

Below: Southwest expansion. These maps show the general market area (top) for steel in the Southwest and the location of a future steel mill which U. S. Steel will construct on Cedar Point, near Baytown, Texas.

The availability of sheet products will increase substantially when two hot strip mill construction projects are completed in 1966 or early 1967. A new 84-inch hot strip mill in the Chicago area will utilize the large slabs from the continuous casting unit and will produce uniform, high quality, weld-free coils. With the widening of the finishing train of a hot strip mill in the South, wider coils of uniform flatness will be available. Additional annealing facilities and warehouse space for cold rolled sheets in each of these same areas will be available in 1966.

A new electrolytic tinning line and a new six-stand 52-inch cold reduction mill will also begin operation in the Chicago area in 1966.

A taconite plant which will have an annual output of about 4½ million gross tons of taconite pellets will begin production in Minnesota in 1967.

In the Chicago area, a second three-furnace Basic Oxygen Process shop has been authorized and, when complete, will replace an additional 17 open hearth furnaces. This is U. S. Steel's third Basic Oxygen Process shop, and more will follow in the future.

Additional finishing facilities and storage areas were authorized for the structural mill in the Chicago area. Upon completion, there will be greater availability of structural products, and customers will be able to have quicker deliveries of a greater variety of lengths, shapes and sizes. Modifications and improvements to a rod mill are under way in this area. When complete, heavier weight rod coils having improved uniformity of size and shape throughout the length of each coil will be available.

Additional plate finishing facilities, under construction in the Chicago area, in the Pittsburgh area and in the South, are scheduled for completion by mid-1967. Construction has started on two new galvanizing lines—an additional unit for the South and the company's first such unit in the East. Upon completion these units will produce galvanized sheets in widths up to 62 inches and in coil weights up to 60,000 pounds.

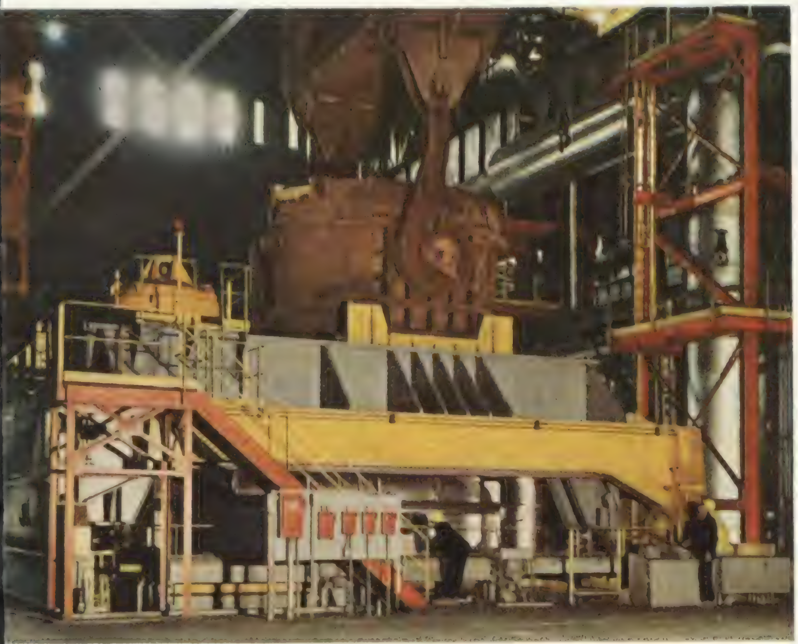
U. S. Steel announced that it had acquired options on a large acreage on Cedar Point, near Baytown, Texas (see maps), where it will construct electric furnaces and a 160-inch plate mill unit including heat treating facilities. Construction is expected to begin in 1967. When this mill is complete, U. S. Steel will be better able to serve plate customers. This location will also provide an initial base for serving other large and expanding steel markets in the Southwest.

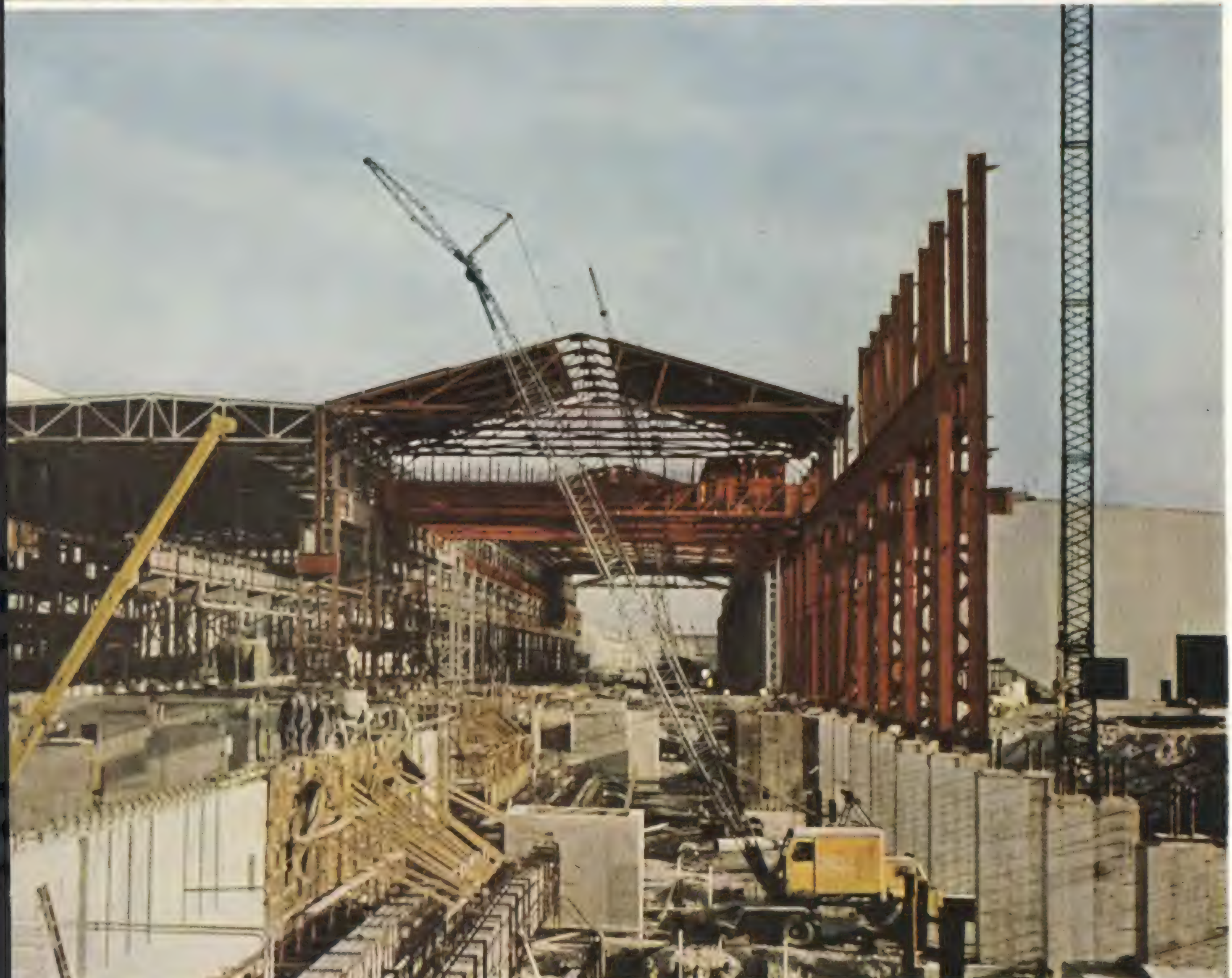
Ten Years of Research

U. S. Steel's Research Center at Monroeville, Pennsylvania, was opened in 1956. The decade that followed has been one of dramatic change in steel.

This period was marked by intensified competition—from other producers, from new materials, and from

More modern methods. Top left: Vacuum carbon deoxidation unit for removal of unwanted gases from liquid steel. U. S. Steel has five such units. Top right: Welding unit on the new electric resistance weld pipe mill in the Cleveland area. Bottom: Construction in the Chicago area of the huge 84-inch hot strip mill for production of the largest weld-free coils available anywhere.





Research—birthplace of innovation.
Above: Research technician examining the structure of refractory material enlarged 150 times. Exacting specifications are required for a wide variety of such furnace lining materials.
Top left: U. S. Steel's Research Center in Monroeville, Pa.
Bottom left: Technician in a university laboratory using a new vibration analysis technique. U. S. Steel participated in a program using this method to show how steel is better and more economical than cast iron for many machine tool components.

foreign steel—which fostered the development of new products as well as improvements in the quality of all products at an accelerating pace. Also the growing use of nuclear energy, deep underwater exploration and the advent of the space age have demanded new materials that will perform under entirely new conditions.

During this ten-year period, U. S. Steel has tripled its expenditures for research. Currently over 1,800 scientists, technicians and other people are employed at Monroeville and associated laboratories. About 1,300 projects were under study during 1965.

The original laboratory complex has grown, too, with the addition of important new research units. An electromechanical unit was added to conduct research and development in the fields of applied mathematics, instrumentation, automatic controls and mechanisms. This unit, for example, is developing optimum rolling practices for light gage products such as steel foil. An Ordnance Materials Research Building was also added. This research unit conducts a development program for higher-yield-strength, high-toughness, weldable steels. These improved steels can be used for the hulls of deep-diving underwater vehicles and armor plate for helicopters and other military uses.

Expansion of the fundamental and applied research laboratory buildings is under way to provide facilities for further research in the fields of high temperature chemistry of iron and steel, basic structures of metals, steel manufacturing processes, and metal surfaces and their relationship to corrosion processes. Another new research unit discussed later in this report, the Residential Tech Center, was opened in 1965.

Research activities have also been expanded at other locations. There is a large-scale research facility in the Chicago area for studying continuous casting and other steelmaking operations; research units in Utah and Minnesota study iron ore mining and beneficiation. A small-scale experimental blast furnace is available for research studies, and a new modern blast furnace is equipped for production line testing and research.

Research techniques have also evolved dramatically during the last decade. Modern high-speed computers aid in the development and design of commercial size facilities for new processes such as continuous casting and the basic oxygen process of steelmaking, as well as improvements in existing processes. Computers were also used in the design of materials handling systems and automatic controls for the new taconite plant under construction in Minnesota.

New Steels from Research

Throughout the past decade, steels with many new and improved qualities have been developed; in fact, during the past two years alone, over one hundred new or improved products have been marketed by U. S. Steel.

These new products have enhanced the competitiveness of steel and have provided customers with a more efficient cost-saving material in their manufacturing processes. Plate products can be bought today in wider widths and with flatter surfaces. For constructional applications, steels in lighter sections are available which possess greater strength per unit of weight so that in erecting buildings, for example, considerably less steel is required to provide the same amount of usable floor space. Sheet products can be made wider and longer, and are flatter with more uniformly parallel and unblemished surfaces.

New chemical compositions have been developed, and new treatment techniques perfected to provide steels with ultra-fine internal grain size which gives steel higher strength and improved toughness.

One of the new products developed in 1965 was an ultra-service steel having a minimum yield strength of 140,000 pounds per square inch. This high-toughness, weldable steel can be used in deep-diving underwater vehi-

Making markets for steel. Top left: Fully operative refrigerator-freezer prototype, designed by U. S. Steel to demonstrate how steel can enhance economy, styling, strength and durability. Top right: Sweeping entrance overhang—a portion of a hyperbolic paraboloid steel roof—supported by only one steel column. Bottom left: Model showing use of steel for transit system structures and tunnel liners. Bottom right: The SCOT—Steel Car Of Tomorrow—*USS model of a lightweight, economical rapid transit vehicle which combines steel and other materials.*

cles and has been selected as the hull material for the Navy's first deep submergence rescue submarine. It is also being considered for the critical drill stems and riser casings for Project Mohole—an effort by the United States to drill the world's deepest hole to explore further the earth's crust.

Another new steel for forging and plate applications is a Ni-Cr-Mo steel, a quenched and tempered steel having a minimum yield strength of 85,000 pounds per square inch. It is highly resistant to radiation, and its strength makes it ideally suited for use in nuclear vessels, as it minimizes wall thickness. It has been approved for today's higher capacity nuclear applications.

USS PRIME RIB galvanized sheets, a new roofing and siding product, is being added to the growing family of galvanized steels. This product has a distinctive rib design which gives attractive shade and shadow effects and distributes concentrated loads over a wide area to protect against damage. It is a very wide and long galvanized roofing and siding sheet and is also economical to install.

USS SOLO barbed wire, a new light weight barbed wire, was introduced. It has a unique single-strand construction, with numerous crimps or "tension curves," which keep the wire rigid after it is strung on posts, and it is suitable for dual-purpose use as an electric fence. It is easily installed and is competitive in price with imported barbed wire.

Another new product is USS "T-1" seamless pressure tubing—the first field-weldable tubing with minimum yield strength of 100,000 pounds per square inch. In high pressure systems, for example, a large diameter, thin-walled tube made of this product will replace several smaller diameter carbon steel tubes.

Building Our Markets

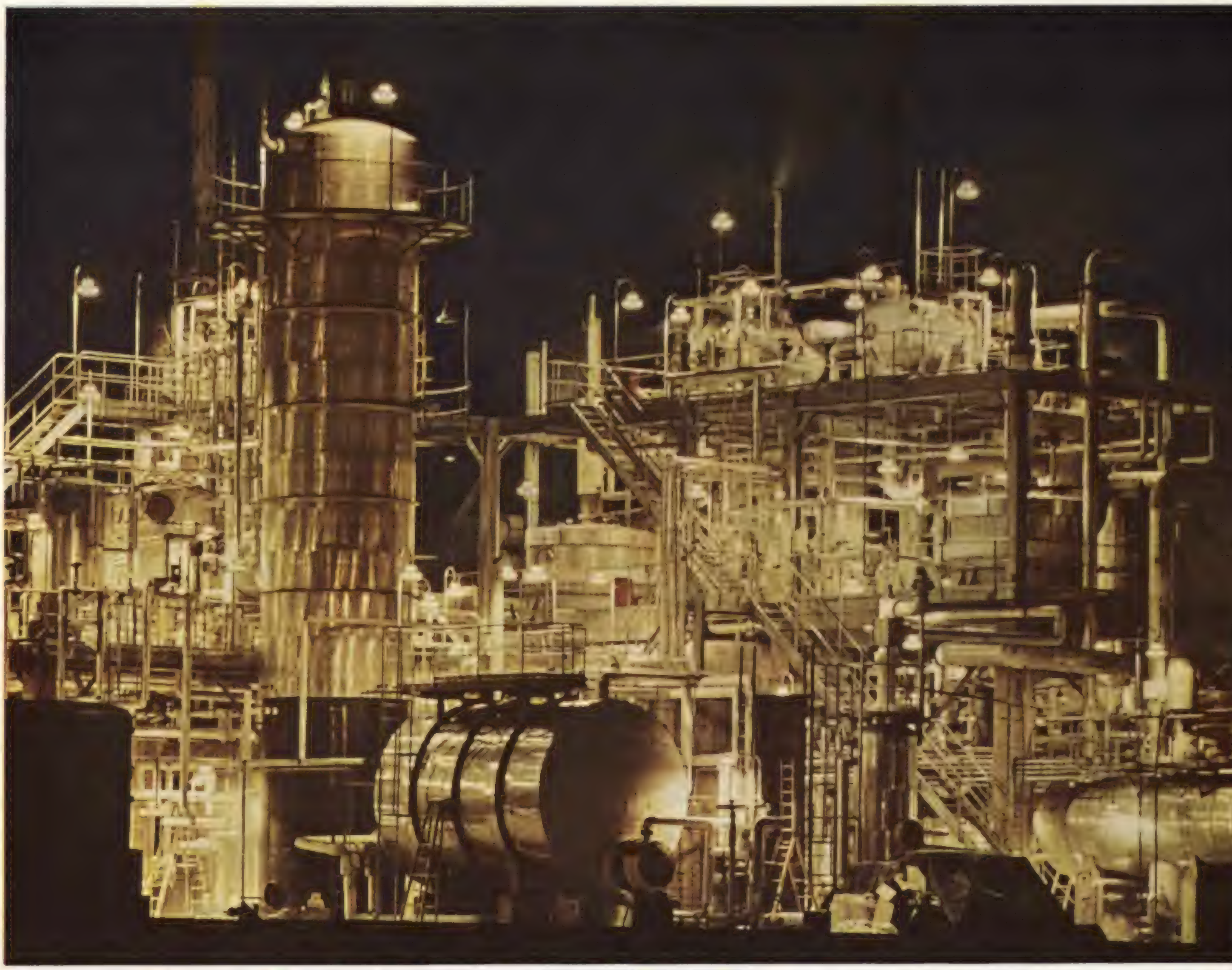
Eleven marketing staff groups, each serving specific industries, seek to expand U. S. Steel's markets for its products. Specific programs demonstrate to buyers, architects, planners, designers, engineers and others how steels will most effectively meet their various needs.

One 1965 program aimed at promoting steels for rapid transit systems—a potentially vast and growing market for steel—is receiving widespread attention. The program features transit system components which uniquely and efficiently use modern steels. Included is a full-scale model of a modern transit car called the SCOT—Steel Car Of Tomorrow—which is adaptable for projected monorail systems, subways, elevated trains or buses. This car, efficiently employing steel sandwich panel construction and large expanses of glass, is attractive, light in weight and strong. Other features of this program include steel tunnel liners, lower in cost and easier to erect than those made of cast iron; aerial structures utilizing noise-dampening, composite steel-concrete girders, lower in cost and lighter than those made entirely of concrete; and novel design concepts for passenger stations and electrical utility structures. Technical brochures on specific aspects of design for the basic elements of a transit system are also made available to planners, designers and engineers.

Steel foil is now available in tissue-thin form from the first rolling mill designed exclusively for the production of wide, ultra-thin steel. With the aid of specialized laboratory equipment, our technical and commercial specialists are providing extensive assistance to many new customers who are taking advantage of steel foil's magnetic properties, high strength, electric resistivity, etc. in producing such diverse products as games, packages and radiant heaters.

Programs are developed in U. S. Steel's Residential Tech Center to expand the use of steel in homes and light commercial structures. This center is a complete experimental two-story house which utilizes, for example, a variety of steel siding materials, steel beams, upper level steel floor systems and steel roofing. It is equipped with instruments to evaluate


SC
STEEL CAR OF TOMORROW



Top: Nighttime on Neville Island. Maleic anhydride plant of USS Chemicals, a division of U. S. Steel. Product is a raw material for chemicals, paints and plastics.

Bottom right: High ride in Gabon, Africa. A 47-mile aerial tramway carries manganese ore from mine to railroad for further transport to port.

Bottom left: High span in Portugal. Tagus River Bridge—longest in Europe—is being constructed by U. S. Steel International (New York), Inc.

the performance of these items and to test and develop new and better systems for use in this market.

U. S. Steel worked jointly with a building fabricator and several equipment manufacturers in the development of a new system of construction which minimizes obsolescence in single-story schools and light commercial buildings. The system is called "SPACE GRID" because of the unique construction of the roof and ceiling lines which provides column-free bays up to 40 feet by 60 feet in size. With this system, the interior partitions, the heating and cooling ducts, the lighting fixtures mounted in the space grid ceiling, and even the exterior walls are relocatable.

Cement

Universal Atlas Cement Division continued its program of modernization and expansion of its production and distributing facilities in 1965. A new, single-kiln, wet-process cement producing facility is commencing operation at the Hannibal (Missouri) plant. This highly automated and enlarged facility replaces the former operation and will supply an expanded distribution system in the Mississippi Valley market area.

Late in 1965, construction was authorized for a large rotary cement kiln, equipped with a highly efficient mechanical-glass bag filter system, to replace three smaller kilns and less effective dust collecting units at the Hudson (New York) plant.

Bahama Cement Company, a wholly-owned subsidiary, has completed its first full year of operation at the new facilities on Grand Bahama Island. Its product is now moving to the Bahama Islands, Bermuda, the Caribbean region and the United States.

Chemicals

Early in 1966, U. S. Steel announced the formation of a new chemical division known as USS Chemicals. This organization change was effective February 1, 1966. The new division consolidates the coal chemical sales activities of U. S. Steel and of Pittsburgh Chemical Company, which was previously operated as a separate division. The operations of Oxo Chemicals Company, a wholly-owned subsidiary of U. S. Steel, located at Haverhill, Ohio, are under the direction of the new division.

Chemicals are produced in the Pittsburgh and Chicago areas as well as in the South, East and West. Major markets served include agricultural, automotive, chemicals, construction, oil, gas, packaging, plastics, metals, rubber and transportation.

New large-capacity coke oven gas recovery and chemical processing facilities, under construction in the Pittsburgh area, are expected to commence operation in late 1966. These facilities will produce anhydrous ammonia, more thoroughly remove the chemicals from the raw gas and provide an improved, dry desulfurized fuel gas. Facility modifications are also being made to increase production of anhydrous ammonia at the existing Geneva, Utah, operation.

Titanium

U. S. Steel and National Distillers and Chemical Corporation are equal owners of Reactive Metals, Inc., a company formed in 1962 and reorganized in 1964 for producing titanium and other metals and for fabricating finished mill products. During 1965, Reactive Metals initiated the first phase of a three-year program of improvement and expansion aimed at keeping its potential output ahead of the rapidly expanding titanium market. Titanium sponge capacity was increased more than 50 per cent near the end of 1965, and facility changes to increase the output of billet products are in process. The program includes improved equipment for producing flat rolled products.

Selling in World Markets

U. S. Steel has participated in world markets for more than 60 years, primarily through export activities. Administration of such selling activities is handled through U. S. Steel International sales companies to provide a complete range of steel and related products and technical services to international customers. Engineering services for construction of buildings, bridges, and other fabricated projects also are available on a worldwide basis. Ores and transportation services are offered in world markets through subsidiary companies.

In more recent years, U. S. Steel also has been expanding its international activities through participation in the ownership of foreign companies which operate and sell independently in world markets.

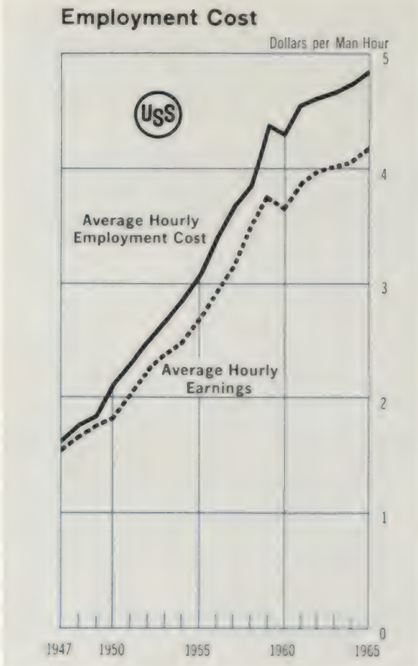
Manufacturing in Italy and Spain

The expansion in Europe's domestic markets, and the related demand for steel, led U. S. Steel to acquire, in recent years, equity interests in steel

Employment Costs

	Millions 1965	1964
Wages and Salaries	$1,630.2	$1,545.5
Employe Benefits		
Pension costs	$ 34.6	$ 46.0
Social security taxes	64.7	63.8
Insurance costs	64.1	58.8
Supplemental unemployment benefit costs	12.0	14.1
Additional vacation benefit costs		
Paid for vacations	(33.4)	(26.0)
Paid for savings funds	17.5	23.7
Other savings fund costs	11.8	10.8
Payments to industry welfare and retirement funds and other employe benefit costs	28.9	32.3
Total Cost of Employe Benefits	$ 233.6	$ 249.5
Total Employment Costs	$1,863.8	$1,795.0

( ) Excluded from total cost of employe benefits; included as wages and salaries.



Employe Benefits

PENSIONS	1965	1964
Number of employes pensioned during the year	3,497	4,480
Number of pensioners or co-pensioners at year end	47,925	47,700
Benefits to pensioners or co-pensioners (millions)	$ 69.0	$ 68.0
INSURANCE		
Life insurance in force at year end for active and retired employes (millions)	$ 1,711.4	$ 1,671.9
Death benefits received by beneficiaries (millions)	$ 17.5	$ 15.6
Accident, sickness, hospital, surgical, in-hospital medical and major medical benefits to employes or their families (millions)	$ 44.3	$ 38.4
SAVINGS FUND PLAN FOR SALARIED EMPLOYES		
Employe savings		
Amount saved in year (millions)	$ 21.4	$ 20.5
Participants—number at year end	34,716	33,232
% of those eligible	93.2%	93.2%
Company contributions applicable to		
Savings (millions)	$ 10.7	$ 10.2
Additional vacation benefits (millions)	$ 11.5	$ 11.9
U. S. Steel common stock held in fund for participants at year end		
Number of shares	2,578,281	2,135,056
% of common shares outstanding	4.8%	3.9%

processing and fabricating operations in Italy and in steel producing operations in Spain.

The Italian companies are 50 per cent owned by U. S. Steel and their facilities are in various stages of construction, start-up and market development. Initial operations have been slow due largely to the economic conditions in Italy.

In Spain, U. S. Steel has a partial ownership of Altos Hornos de Vizcaya (AHV), the largest privately-owned integrated steel company in Spain. This participation includes a subscription to one-fourth of the outstanding stock, a loan arrangement, and the furnishing of broad technical and managerial assistance. The operations of AHV and its associated companies range from mining of raw materials to production of finished steel products.

Mining in Other Countries

Two wholly-owned U. S. Steel subsidiaries—Orinoco Mining Company, operating in Venezuela, and Quebec Cartier Mining Company in Canada—sell iron ore in their national markets and to North American and other overseas customers, including U. S. Steel. In 1965, total shipments from Orinoco and Quebec Cartier were

Future repairmen. Apprentice electricians at a U. S. Steel plant are learning how to repair and maintain in-plant television monitors of producing facilities.

about 14.4 million and 8.2 million gross tons, respectively.

A wholly-owned mining company located in Brazil sells manganese ore to U. S. Steel and to Brazilian and overseas markets.

U. S. Steel has a 49 per cent interest in a mining company located in the Republic of Gabon, Africa. It has large deposits of high grade manganese ore and has economical transportation facilities to a tidewater port. This company, which sells essentially all its output in overseas markets, shipped about 1.2 million gross tons during 1965 to worldwide purchasers, including U. S. Steel. With the additional facilities which were completed in 1965, the company expects to increase its sales participation in world markets.

Employment Matters

An average of 208,838 people were employed during 1965, an increase of 4.4 per cent over 1964.

More than $1.8 billion (details in the table on page 18) was paid to or for the benefit of employes in 1965. Some $234 million of this amount was for various employe benefits. Benefits to employes and their families from some of these programs are also shown in the tables on page 18.

The average hourly employment cost was $4.81 per hour worked. Of this amount, $4.21 was paid directly to the employes as wages and salaries; the remaining 60 cents or 12 per cent went to cover the cost of various employe benefit programs. The total hourly employment cost increased in 1965 principally because of the 11½¢ interim increase incurred between May 1 and September 1 and a higher cost from the labor agreement starting September 1, 1965.

In some plant areas, a shortage of qualified personnel, combined with the high vacation load as the result of extended vacations for employes covered under the Savings and Vacation Plans, caused problems of scheduling, retraining and labor performance during the months of high demand for steel. The new labor agreement provides for some changes in vacation scheduling and for pay-in-lieu of part of the employe's vacation. These changes should ease these problems somewhat in the future.

Safety

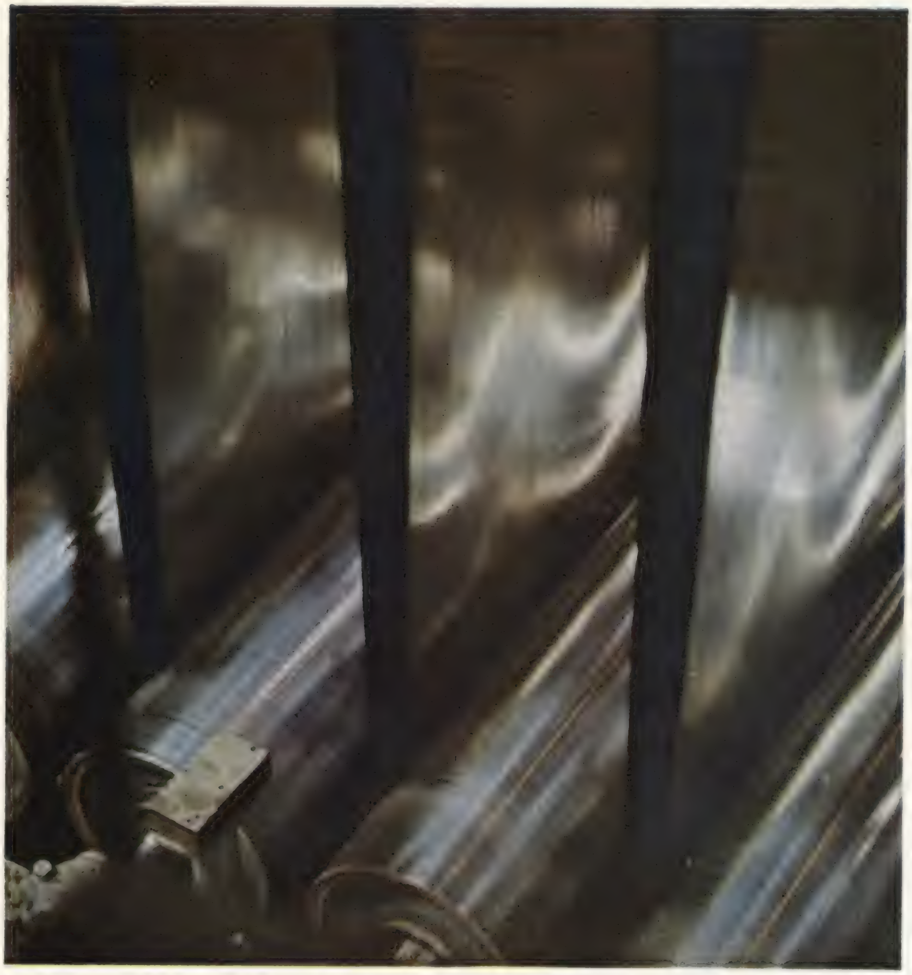
A new all-time low rate of 0.71 disabling injuries per million man-hours worked in steel producing operations was attained in 1965. This low rate —equivalent to one disabling injury for each 750 man-years worked—was again only about one-sixth the rate for the rest of the steel industry. At the same time, the severity rate in the steel producing operations was reduced to a new all-time low and was also substantially lower than that for the remainder of the steel industry.

Many steel and cement plants, mines and other operations again received recognition from the National Safety Council and other agencies for record safety performances. Homestead District Works, one of the first place winners, was acclaimed as being the safest steel mill in the United States. During the twelve-month contest period, this plant attained the outstanding record low of 0.05 disabling injuries per million man-hours worked—equal to one such injury for each 10,000 man-years worked.

Personnel Development

The success of an enterprise is dependent upon the caliber of its people. Increasing attention is given therefore to programs aimed at the most effective recruitment, placement, development, motivation and retention of employes.

On-the-job training programs are used extensively. Apprenticeship programs are conducted for non-manage-



The sparkle of steel. Light weight tin plate for food and beverage containers speeds through a new electrolytic tinning line in the West.

ment employes; the Advanced Technical Study Program, expanded in 1965, offers opportunities to all employes for continuing self-development on a voluntary basis.

The Management Trainee Development Program emphasizes company orientation, on-the-job training, group related study and continuous self-development. More than 600 recruits entered this program in 1965.

Of General Interest

At a time when government at all levels is steadily extending its influence in a number of areas, U. S. Steel encourages its employes, stockholders and others to exercise fully their responsibilities as free American citizens. Through programs that are entirely voluntary and non-partisan, U. S. Steel encourages its employes to participate in civic and governmental affairs and in the political parties of their choice.

Since 1960, the corporation has offered an Applied Citizenship Train-

Stockholders and Shares

December 31, 1965

Registered in name of:	Preferred# Holders	Preferred# Shares	Common Holders	Common Shares	Total Holders*	Total Shares
Individuals — Women	25,621	727,729	124,218	13,513,748	144,023	14,241,477
— Men	11,649	350,189	102,747	12,952,338	111,478	13,302,527
— Joint Accounts	5,463	128,927	78,092	5,183,124	82,249	5,312,051
Total individuals	42,733	1,206,845	305,057	31,649,210	337,750	32,856,055
Nominees	937	1,153,036	1,371	11,522,939	1,502	12,675,975
Brokers	220	415,145	428	6,746,065	446	7,161,210
Others	5,819	827,785	27,714	4,219,923	32,815	5,047,708
Total	49,709	3,602,811	334,570	54,138,137	372,513	57,740,948

Preferred stock exchanged for subordinated debentures January 1, 1966. See "Merger on January 1, 1966", page 7.

* Holders of both preferred and common shares number 11,766.

The number of registered holders increased 3,742 during the year. No individual held of record as much as two-tenths of one per cent of either the preferred or common stock. Stock registered in the name of nominees, brokers and others is owned by insurance companies; charitable, religious and educational organizations of many types; pension funds; investment companies; trustees, custodians and estates; and others, including many individuals. 34,891 employe participants in the Savings Fund Plan for Salaried Employes are the beneficial owners of stock held by the Trustee of the Plan in the name of a nominee.

ing Program to help U. S. Steel people become informed, politically-interested citizens. Some 8,000 have attended these non-partisan courses, and a canvass conducted early in 1965 revealed that almost 1,000 employes were holding elective or appointive office in state and local governments.

During the year, sustained and expanding public relations support was supplied to the vital commercial activities of the corporation. The Product Information Section disseminates reports on new products, new processes, new services and new marketing programs to trade publications and to other media reaching customers and prospective customers.

As a member of the American Iron and Steel Institute, U. S. Steel participated last year in the preparation of an Institute motion picture produced by Walt Disney and featuring Disney's cartoon character, Donald Duck, to portray the advances made in steelmaking processes and in the development of ultra-modern steels. This entertaining and informative film, titled, "Steel and America," is being presented widely over television, and is available for showing to groups such as schools and civic clubs. Groups interested in seeing the film may obtain information through U. S. Steel's Public Relations Department.

The year 1965, the sixty-fifth year for U. S. Steel, was one of continued progress in many areas. This improvement must continue for U. S. Steel to remain fully competitive and thus a profitable and growing company.

There are, of course, challenges facing us, stemming from the wage and benefit increases to employes for 1965, 1966 and 1967, from a surge in steel product imports and from the continuing intensified competition in the marketplace from other producers of steel and from other materials vying for steel's markets.

There are many activities under way, however, as indicated throughout this report, all aimed at improving our competitive capabilities. These include personnel development programs, an expanding and vigorous research program, and comprehensive marketing programs directed to all those who buy or use steels. There is also an aggressive and extensive program of modernization, replacement and extension of facilities in all areas of the corporation's activities. All these programs demonstrate management's confidence that U. S. Steel will continue as a growing, increasingly profitable competitor in an expanding and free economy.

Competitive, profitable enterprises are in the public interest. U. S. Steel believes that the decisions made in lawful private enterprise—under the discipline of the profit and loss system—inherently reflect the public interest. This is the theme of the message from U. S. Steel starting on page 32 of this report.

U. S. Steel, in the long run, can continue as a successful job-providing enterprise, only if it is successful as a profit-seeking enterprise—for profit provides the real basis of security for a company's employes, for its owners, and for the nation as a whole.

Roger M Blough
Chairman, Board of Directors

L. B. Worthington
President

Robert C. Tyson
Chairman, Finance Committee

February 23, 1966

FINANCIAL STATEMENTS
Summary of 1965
Financial Operations

ADDITIONS TO WORKING CAPITAL

Income		$275,476,056
Add—Wear and exhaustion of facilities		324,501,064
Deferred investment credit		12,455,131
Proceeds from sales and salvage of plant and equipment		8,040,648
Proceeds from sale of common stock under Stock Option Incentive Plans		391,200
Miscellaneous additions		1,567,279
Total additions		622,431,378

DEDUCTIONS FROM WORKING CAPITAL

Expended for plant and equipment	$353,594,904	
Increase in miscellaneous investments	30,821,331	
Reduction in long-term debt due after one year	40,321,467	
Dividends declared on preferred and common stocks	133,495,100	
Total deductions		558,232,802
INCREASE IN WORKING CAPITAL		$ 64,198,576

WORKING CAPITAL PER CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 1965	$890,589,620	
December 31, 1964	826,391,044	
INCREASE		$ 64,198,576

CONSOLIDATED STATEMENT OF

Income

	1965	1964
PRODUCTS AND SERVICES SOLD	$4,464,976,150	$4,129,352,578
COSTS		
Employment costs		
Wages and salaries	1,630,239,551	1,545,527,248
Employe benefits *(see page 18)*	233,554,686	249,510,293
	1,863,794,237	1,795,037,541
Products and services bought	1,624,784,711	1,404,789,109
Wear and exhaustion of facilities	324,501,064	335,753,391
Interest and other costs on long-term debt	30,885,379	34,415,490
State, local and miscellaneous taxes	110,534,703	107,571,933
Estimated United States and foreign taxes on income	235,000,000	215,000,000
Total	4,189,500,094	3,892,567,464
INCOME	275,476,056	236,785,114
Income Per Common Share	$4.62	$3.91
DIVIDENDS DECLARED		
On cumulative preferred stock *($7 per share)*	25,219,677	25,219,677
On common stock *($2 per share)*	108,275,423	108,254,327
INCOME REINVESTED IN BUSINESS	$ 141,980,956	$ 103,311,110

CONSOLIDATED STATEMENT OF

Financial Position

	Dec. 31, 1965	Dec. 31, 1964
CURRENT ASSETS		
Cash	$ 268,072,915	$ 268,322,952
Marketable securities, at cost (approximates market)	496,170,218	314,707,562
Receivables, less estimated bad debts	344,537,317	390,495,997
Inventories (*details on page 25*)	641,849,935	700,390,435
Total	1,750,630,385	1,673,916,946
Less		
CURRENT LIABILITIES		
Accounts payable	453,076,712	438,611,662
Accrued taxes, less United States Government securities of $118,600,000 at December 31, 1965 and $124,700,000 at December 31, 1964	351,520,190	354,479,390
Dividends payable	33,373,988	33,369,963
Long-term debt due within one year	22,069,875	21,064,887
Total	860,040,765	847,525,902
WORKING CAPITAL	890,589,620	826,391,044
Miscellaneous investments, at cost less estimated losses	108,415,770	77,594,439
Marketable securities, at cost (approximates market), set aside for property additions and replacements	655,000,000	655,000,000
Plant and equipment, less depreciation (*details on page 25*)	2,714,086,077	2,693,032,885
Operating parts and supplies	50,680,686	48,518,511
Costs applicable to future periods	54,327,039	58,056,493
TOTAL ASSETS LESS CURRENT LIABILITIES	4,473,099,192	4,358,593,372
Deduct		
Long-term debt (*details on page 25*)	705,094,320	745,415,787
Reserves for insurance, contingencies and accident and hospital expenses and deferred investment credit (*details on page 25*)	143,142,245	130,431,747
EXCESS OF ASSETS OVER LIABILITIES AND RESERVES	$3,624,862,627	$3,482,745,838
OWNERSHIP EVIDENCED BY		
Preferred stock, 7% cumulative, par value $100 (authorized 4,000,000 shares; outstanding 3,602,811 shares)	$ 360,281,100	$ 360,281,100
Common stock (authorized 90,000,000 shares; outstanding 54,138,137 shares at December 31, 1965 and 54,129,987 shares at December 31, 1964)	3,264,581,527	3,122,464,738
Par value $16⅔ per share . . . $ 902,302,283		
Income reinvested in business (*see page 23 for addition of $141,980,956 in 1965*) . . . 2,362,279,244		
Total	$3,624,862,627	$3,482,745,838

DETAILS OF

Selected Items

Dollars in millions

PLANT AND EQUIPMENT	Facilities (at cost)				Less depreciation and depletion			Net
	Land	Plant	Transportation	Total	Plant	Transportation	Total	
Balance December 31, 1964	$102.7	$6,010.8	$788.1	$6,901.6	$3,779.2	$429.4	$4,208.6	$2,693.0
Additions	1.5	335.6	16.5	353.6	300.1	28.3	328.4†	25.2
Deductions	.3	44.2	14.9	59.4	43.5	11.8	55.3	4.1‡
Balance December 31, 1965	$103.9	$6,302.2	$789.7	$7,195.8	$4,035.8	$445.9	$4,481.7	$2,714.1

†Wear and exhaustion of $324.5 million shown in the Consolidated Statement of Income comprises depreciation and depletion of $328.4 million, less profit of $3.9 million resulting from sales.

‡Includes $8.0 million proceeds from sales and salvage of plant and equipment, less profit of $3.9 million resulting therefrom.

RESERVES AND DEFERRED INVESTMENT CREDIT	Deducted from:		Other				
	Current receivables	Miscellaneous investments	Reserve for insurance	Reserve for contingencies	Accident and hospital	Investment credit	Total other
Balance December 31, 1964	$12.1	$5.6	$50.0	$58.2	$ 9.4	$12.8	$130.4
Additions	.5	—	3.4	—	22.8	13.7	39.9
Deductions	.8	—	3.4	.2	22.8	1.2	27.2
Balance December 31, 1965	$11.8	$5.6	$50.0	$58.4	$ 9.4	$25.3	$143.1

INVENTORIES	Ore, limestone, coal and coke	Non-ferrous metals	Semi-finished products	Finished products	Supplies and sundry items	Contracts in progress	Total inventories
December 31, 1964	$166.5	$23.7	$210.7	$212.6	$56.0	$30.9	$700.4
December 31, 1965	145.0	23.8	182.5	209.4	55.1	26.0	641.8

For the most part, inventories are carried at cost as determined under the last-in, first-out method, and the remainder is carried at cost or market, whichever is lower. The last-in, first-out method was first adopted in 1941 and extended in 1942 and 1947.

LONG-TERM DEBT	Interest rates	Years of maturity	Outstanding Dec. 31, 1965	Decrease in year
United States Steel Corporation				
Sinking Fund Debentures (Callable)	4½	1986	$285.0	$15.0
Sinking Fund Debentures (Callable)	4	1983	253.5	22.0
Bessemer and Lake Erie Railroad Company				
Pittsburg, Bessemer and Lake Erie Railroad Company				
First Mortgage Series A (Callable)	2⅞	1996	7.8	1.1
Elgin, Joliet and Eastern Railway Company				
First Mortgage Series A (Callable)	3¼	1970	9.7	—
Quebec Cartier Mining Company				
Notes payable to banks†	4½	1966-1972	140.0	—
Union Railroad Company				
First and Refunding Mortgage Series A (Callable)	3	1996	6.0	.1
Real estate mortgages and purchase money obligations	—	—	25.2	1.0
Bonds covered by deposits with trustees	—	—	—	.1
Total long-term debt			727.2	39.3
Less amount due within one year			22.1	*1.0*
Long-term debt due after one year			$705.1	$40.3

†A 1965 agreement with the banks rearranges the payment schedule so as to provide semi-annual payments of $10.0 million beginning in 1966 with final payments in 1972.

NOTES TO

Financial Statements

JANUARY 1, 1966 MERGER

As explained on page 7 of this report, the January 1, 1966 merger of United States Steel Corporation, a New Jersey Corporation, into a wholly-owned Delaware subsidiary company involves the exchange of preferred stock for subordinated debentures and an increase in the par value of the outstanding common stock. The resultant changes in capitalization and costs applicable to future periods (before giving effect to any cash settlement in lieu of debentures or fractions thereof) were as follows:

	(dollars in millions)		
	December 31, 1965	January 1, 1966 - After Merger	Increase *Decrease*
Long-term debt due after one year	$ 705.1	$1,335.6	$630.5
Preferred stock	360.3	—	*360.3*
Common stock	902.3	1,624.2	721.9 (2)
Capital surplus	17.8	—	*17.8*
Income reinvested in business	2,362.3	1,424.0	*234.2* (1) *704.1*
Capitalization	$4,347.8	$4,383.8	$ 36.0
Less: Costs applicable to future periods			36.0
			$ —

(1) The $234.2 million excess of the aggregate market value of the preferred stock at the close of business on December 31, 1965 over its total par value was charged to Income Reinvested in Business and the difference between such market value and the aggregate principal amount of the Debentures authorized was reflected in Costs Applicable to Future Periods (unamortized debt discount).

(2) The increase in par value of common stock from $16⅔ per share to $30 per share was transferred from Income Reinvested in Business in the amount of $704.1 million and from Capital Surplus in the amount of $17.8 million (included with the Reserve for Contingencies in the financial statements).

PRINCIPLES APPLIED IN CONSOLIDATION

Subsidiaries consolidated include all companies (with minor exceptions) of which a majority of the capital stock is owned by U. S. Steel or by any of its consolidated subsidiaries.

STOCK OPTION INCENTIVE PLANS

The Stock Option Incentive Plan approved by stockholders in 1964 and the Plan approved in 1951 authorized the option and sale of up to 1,500,000 shares and 2,600,000 shares of common stock, respectively, to key management employes, such shares of stock to be made available from authorized unissued or reacquired common stock at market price on the date the options are granted. An option may be exercised in whole at any time, or in part from time to time, during the option period. The option period begins on the date the option is granted and ends five years (1964 Plan) and ten years (1951 Plan) thereafter, except in cases of death, retirement or other earlier termination. No options to purchase stock were granted during 1965 under the 1964 Plan, and the granting of options under the 1951 Plan was terminated in 1964.

In 1965, no options were exercised under the 1964 Plan and 24 optionees purchased 8,150 shares at $48.00 per share under options granted under the 1951 Plan. At December 31, 1965, under the 1964 Plan, 225 optionees held options to purchase 462,350 shares at $55.50 per share for a total of $25.7 million and 1,036,550 shares were available for future options. Under the 1951 Plan, 111 optionees held options to purchase 147,025 shares at prices ranging from $55.00 to $82.00 per share for a total of $9.2 million.

SECURITIES SET ASIDE FOR PROPERTY ADDITIONS AND REPLACEMENTS

At December 31, 1965, completion of authorized additions to and replacements of facilities required an estimated further expenditure of $735 million and marketable securities set aside to cover in part such authorized expenditures totaled $655 million, the same as at the end of 1964.

WEAR AND EXHAUSTION OF FACILITIES

For the most part, wear and exhaustion of facilities is related to U. S. Steel's rate of operations within the guidelines established in 1962 by the Internal Revenue Service.

The investment tax credit provided for in the Revenue Act of 1962, as amended in 1964, amounted to $13.7 million in 1965 and $13.4 million in 1964 and was included in the provision for income taxes and established as a deferred investment credit to be amortized over the lives of the property acquired.

RESERVES FOR INSURANCE, CONTINGENCIES AND ACCIDENT AND HOSPITAL EXPENSES

U. S. Steel is, for the most part, a self-insurer of its assets against fire, windstorm, marine and related losses. The insurance reserve of $50 million is held available for absorbing possible losses of this character, and is considered adequate for this purpose.

The reserves for contingencies and accident and hospital expenses of $67.8 million, provided mainly in previous years by charges to operations, are held for exceptional unanticipated losses other than those covered by the insurance reserve.

PENSION FUNDING

Pension costs for 1965, as determined by an independent actuary based on various actuarial factors, were $34.6 million, and this amount was paid into pen-

Independent

Auditors' Report

sion trusts by U. S. Steel. At March 1, 1950, the effective date of the present non-contributory part of the pension plan, the actuarial cost of pensions for service rendered prior to that date which had not been funded was estimated at $496 million and as of December 31, 1964 approximately $207 million of this amount remained unfunded. In 1965, the basis of determining pension costs was changed to an actuarial method under which all costs, including previously unfunded past service costs, are funded over the future on a combined basis. Also, in the light of actual experience, interest factors were adjusted. The net effect during 1965 of the change in funding method and the adjustment of interest factors was to decrease U. S. Steel's pension costs for the year with a resultant increase in income of $3.8 million.

The combined assets of the contributory and non-contributory pension trusts were $1,717.5 million at December 31, 1965 (after write-off of the investment of $2.5 million in a Canadian finance company) and $1,659.7 million at December 31, 1964, as set forth in the statement appearing on page 30. These funds are held by the trustee, United States Steel and Carnegie Pension Fund (a non-profit Pennsylvania membership corporation), solely for the payment of benefits under the U. S. Steel pension plan, and were adequate at the respective dates to pay full pensions to all those then entitled to receive them as well as to meet currently accruing pension costs incurred since the adoption of the present contributory and of the present non-contributory parts of the pension plan in 1940 and 1950, respectively.

OTHER ITEMS

Products and Services Sold—Products and services sold includes interest, dividends and other income of $65.4 million in 1965 and $51.9 million in 1964.

Costs—Wages and salaries totaled $1,655.7 million in 1965 of which $1,630.2 million was included in costs of products and services sold and the balance was charged to construction.

Products and services bought reflects the changes during the year in inventories and deferred costs. These items decreased during 1965 approximately $60 million.

If the total of wages and salaries and products and services bought in 1965 were reclassified as costs of products and services sold and general administrative and selling expenses, the amounts thereof would be $3,068.6 million and $186.4 million, respectively.

Maintenance and repairs of plant and equipment totaled $547.5 million in 1965.

Non-cancellable charters and leases covering ore ships, office space, and other properties with minimum rentals aggregating approximately $40 million per year were in effect at December 31, 1965, the major portion of which terminates within ten years. In 1965, expenditures on such charters and leases amounted to approximately $52 million.

PRICE WATERHOUSE & CO.

60 BROAD STREET

NEW YORK 10004

February 23, 1966

To the Stockholders of
United States Steel Corporation:

In our opinion, the accompanying Consolidated Statement of Financial Position and related Statement of Income present fairly the position of United States Steel Corporation and subsidiaries at December 31, 1965 and the results of operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

U. S. Steel's Operating and Financial Story 1950-1965

SUMMARY OF OPERATING DATA (net tons in millions)

Year	Total ores mined	Total coal mined	Total coke produced	Total iron produced	Ingots & castings produced	Steel products shipped	Employment statistics: No. of employes	Employment statistics: Weekly hours	Employment statistics: Hourly earnings	Employment statistics: Hourly employment cost
1950	46.3	22.3	20.1	23.6	31.5	22.6	288,265	37.8	$1.83	$2.12
1951	57.5	24.5	21.5	25.8	34.3	24.6	301,328	38.7	2.05	2.31
1952	45.7	19.2	18.0	22.0	29.4	21.1	294,263	34.7	2.27	2.54
1953	58.7	26.0	21.6	27.2	35.8	25.1	301,560	37.9	2.39	2.69
1954	37.9	22.7	18.7	20.9	28.4	20.2	268,142	35.6	2.49	2.84
1955	52.1	25.2	21.6	26.0	35.3	25.5	272,646	37.5	2.70	3.08
1956	47.4	23.0	20.6	24.6	33.4	23.9	260,646	37.1	2.93	3.38
1957	57.9	23.5	22.3	26.4	33.7	23.4	271,037	36.3	3.19	3.71
1958	39.8	16.8	15.1	18.1	23.8	17.0	223,490	34.2	3.50	3.87
1959	36.4	15.0	14.8	18.6	24.4	18.1	200,329	35.1	3.78	4.39
1960	50.2	18.0	16.6	21.2	27.3	18.7	225,081	34.8	3.68	4.30
1961	35.8	15.2	14.2	19.3	25.2	16.8	199,243	35.1	3.89	4.57
1962	37.7	13.5	13.1	18.9	25.4	17.8	194,044	35.0	4.01	4.62
1963	37.0	14.5	13.5	20.9	27.6	18.9	187,721	35.9	4.04	4.68
1964	44.9	17.0	15.6	25.2	32.4	21.2	199,979	36.8	4.08	4.74
1965	46.8	18.0	17.4	25.1	32.6	22.5	208,838	36.1	4.21	4.81

Production data, which are grouped in broad product classifications, include all production of the materials by the operating divisions and subsidiaries and exclude all materials purchased. The average weekly hours shown are based on the average monthly number of employes receiving pay. Hourly employment cost includes hourly earnings, social security taxes, pensions, insurance and other employe benefit costs.

SUMMARY OF FINANCIAL OPERATIONS (change in working capital in millions of dollars)

Year	Additions: Income as reported	Additions: Wear and exhaustion of facilities	Additions: Sale of securities	Additions: Miscellaneous other additions	Deductions: For plant & equipment: Total expenditures	Deductions: For plant & equipment: Securities set aside	Deductions: For long-term debt: Reduction in total	Deductions: For long-term debt: Added to current debt	Deductions: Dividends declared on stocks	Deductions: Miscellaneous other deductions	Increase in working capital
1950	215.5	143.9	—	6.4	179.3	95.0	6.0	*1.8*	117.9	11.4	*42.0*
1951	184.3	162.1	—	9.5	352.4	—	8.5	*1.6*	103.5	—	*106.9*
1952	143.6	176.9	—	12.0	469.2	*231.0*	*6.8*	.7	103.5	5.2	*8.3*
1953	222.1	236.6	—	6.4	361.4	*19.0*	*5.0*	1.5	103.5	3.3	19.4
1954	195.4	261.8	309.5	17.8	227.4	—	5.1	35.3	110.7	—	406.0
1955	370.1	285.2	13.7	6.7	239.8	300.0	44.8	*6.8*	148.1	6.7	*56.9*
1956	348.1	277.6	4.8	29.8	311.8	225.0	42.7	*1.6*	170.1	3.7	*91.4*
1957	419.4	276.0	2.1	7.3	514.9	*110.0*	33.2	*4.7*	186.5	9.0	75.9
1958	301.5	204.9	302.6	7.6	448.1	115.0	27.2	1.8	186.6	21.2	16.7
1959	254.5	189.9	6.5	19.4	366.1	*35.0*	28.9	4.1	187.0	—	*80.8*
1960	304.2	208.4	2.9	8.3	492.4	*195.0*	32.8	*1.1*	187.2	14.9	*7.4*
1961	190.2	210.5	499.2	4.4	326.8	—	28.6	.8	187.5	21.2	339.4
1962	163.7	265.9	.1	14.1	200.6	—	41.9	18.1	160.5	6.9	15.8
1963	203.5	307.8	—	13.4	244.7	30.0	62.9	—	133.4	5.4	48.3
1964	236.8	335.8	.7	20.2	292.6	325.0	54.5	*29.4*	133.5	2.5	*185.2*
1965	275.5	324.5	.4	22.0	353.6	—	39.3	1.0	133.5	30.8	64.2

CONSOLIDATED STATEMENT OF INCOME (dollars in millions)

Year	Products & services sold	Employment costs (1)	Products & services bought	Wear and exhaustion of facilities	Interest & other costs on debt	Income & other taxes	Income: Amount	Income: % of sales	Income: Per common share (2)	Total dividends declared (3)	Reinvested in business
1950	2,956.4	1,179.4	1,118.8	143.9	2.2	296.6	215.5	7.3	3.64	117.9	97.6
1951	3,524.1	1,374.5	1,327.9	162.1	2.0	473.3	184.3	5.2	3.05	103.5	80.8
1952	3,137.4	1,322.1	1,307.6	176.9	1.9	185.3	143.6	4.6	2.27	103.5	40.1
1953	3,861.0	1,569.2	1,418.7	236.6	2.1	412.3	222.1	5.8	3.77	103.5	118.6
1954	3,250.4	1,387.0	1,134.3	261.8	5.2	266.7	195.4	6.0	3.23	110.7	84.7
1955	4,097.7	1,614.9	1,355.2	285.2	9.1	463.2	370.1	9.0	6.44	148.1	222.0
1956	4,228.9	1,681.0	1,487.5	277.6	7.7	427.0	348.1	8.2	6.01	170.1	178.0
1957	4,413.8	1,862.0	1,324.2	276.0	7.0	525.2	419.4	9.5	7.33	186.5	232.9
1958	3,472.1	1,488.5	1,085.6	204.9	11.5	380.1	301.5	8.7	5.13	186.6	114.9
1959	3,643.0	1,576.2	1,278.2	189.9	17.6	326.6	254.5	7.0	4.25	187.0	67.5
1960	3,698.5	1,700.0	1,091.2	208.4	16.9	377.8	304.2	8.2	5.16	187.2	117.0
1961	3,336.5	1,622.7	1,022.4	210.5	29.9	260.8	190.2	5.7	3.05	187.5	2.7
1962	3,501.0	1,608.3	1,192.4	265.9	37.5	233.2	163.7	4.7	2.56	160.5	3.2
1963	3,637.2	1,611.5	1,211.0	307.8	35.6	267.8	203.5	5.6	3.30	133.4	70.1
1964	4,129.4	1,795.0	1,404.8	335.8	34.4	322.6	236.8	5.7	3.91	133.5	103.3
1965	4,465.0	1,863.8	1,624.8	324.5	30.9	345.5	275.5	6.2	4.62	133.5	142.0

(1) Employment costs include pensions, social security taxes, insurance and other employe benefit costs.

(2) Adjusted to reflect 2 for 1 stock split in 1955.

(3) Includes $25.2 million on 7% cumulative preferred stock in each year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (dollars in millions)

Dec. 31	Working capital: Cash and securities	Working capital: Receivables and inventories	Working capital: Less — current liabilities	Total working capital	Securities set aside for plant & equipment	Plant & equipment less depreciation	Other non-current assets (1)	Total assets less current liabilities	Long-term debt due after one year	Reserves & deferred investment credit	Ownership (Stocks and income reinvested)(2)
1950	472.8	606.5	637.5	441.8	250.0	1,386.6	113.3	2,191.7	61.8	114.7	2,015.2
1951	560.1	652.6	877.8	334.9	250.0	1,571.4	106.6	2,262.9	54.9	112.0	2,096.0
1952	322.3	688.4	684.1	326.6	19.0	1,851.6	107.1	2,304.3	61.0	107.2	2,136.1
1953	431.9	742.4	828.3	346.0	—	1,970.0	103.2	2,419.2	64.5	100.0	2,254.7
1954	639.6	686.4	574.0	752.0	—	1,925.7	97.0	2,774.7	324.1	101.9	2,348.7
1955	567.5	775.6	648.0	695.1	300.0	1,873.7	103.6	2,972.4	286.1	103.7	2,582.6
1956	510.1	815.8	722.2	603.7	525.0	1,878.0	107.4	3,114.1	245.0	105.1	2,764.0
1957	526.3	906.7	753.4	679.6	415.0	2,109.6	116.4	3,320.6	216.5	106.3	2,997.8
1958	507.5	915.6	726.8	696.3	530.0	2,345.1	138.6	3,710.0	487.5	108.5	3,114.0
1959	515.4	908.3	808.2	615.5	495.0	2,511.9	128.5	3,750.9	454.5	112.7	3,183.7
1960	451.7	944.1	787.7	608.1	300.0	2,787.6	143.4	3,839.1	422.8	114.4	3,301.9
1961	642.2	1,060.9	755.6	947.5	300.0	2,899.5	169.4	4,316.4	893.4	117.1	3,305.9
1962	691.3	995.3	723.3	963.3	300.0	2,820.1	176.2	4,259.6	833.4	117.1	3,309.1
1963	857.4	920.8	766.6	1,011.6	330.0	2,743.6	181.6	4,266.8	770.5	117.1	3,379.2
1964	583.0	1,090.9	847.5	826.4	655.0	2,693.0	184.1	4,358.5	745.4	130.4	3,482.7
1965	764.2	986.4	860.0	890.6	655.0	2,714.1	213.4	4,473.1	705.1	143.1	3,624.9

(1) Includes miscellaneous investments, operating parts and supplies and costs applicable to future periods.

(2) Ownership includes $360.3 million par value in each year for 7% cumulative preferred stock and the balance is applicable to common stock.

Combined Pension Trusts

UNITED STATES STEEL AND CARNEGIE PENSION FUND, TRUSTEE

STATEMENT OF ASSETS

	Dec. 31, 1965	Dec. 31, 1964
Investments, at cost (less than aggregate market or estimated fair value) (*details on page 31*)	$1,698,436,175	$1,642,021,269
Cash	2,368,303	2,058,087
Accrued interest and other receivables	13,488,910	11,651,157
Contributions receivable in subsequent period	3,808,900	4,913,085
Payables	*557,042*	*945,282*
Assets	$1,717,545,246	$1,659,698,316

STATEMENT OF CHANGES DURING THE YEAR

	Year 1965	Year 1964
Balance at beginning of year	$1,659,698,316	$1,597,519,648
Additions		
Receipts from employing companies	34,599,212	46,010,382
Receipts from participating employes	7,818,533	7,292,951
Income from investments	79,883,282	73,476,996
Gain on disposition of investments	5,806,973	4,459,663
	1,787,806,316	1,728,759,640
Deductions		
Pension payments	68,978,699	68,001,950
Refunds to withdrawing employes	1,282,371	1,059,374
	70,261,070	69,061,324
Balance at end of year	$1,717,545,246	$1,659,698,316

UNITED STATES STEEL AND CARNEGIE PENSION FUND, TRUSTEE

SUMMARY OF INVESTMENTS

		At December 31, 1965
Securities of Subsidiaries of United States Steel Corporation		
Elgin, Joliet and Eastern Railway Company First Mortgage Series A	$ 2,670,992	
Pittsburg, Bessemer and Lake Erie Railroad Company First Mortgage Series A	2,310,912	
Union Railroad Company First and Refunding Mortgage Series A	5,958,000	$ 10,939,904
Other bonds, notes and debentures		
United States Government	181,234,106	
Other	633,769,158	815,003,264
Preferred stocks		643,230
Common stocks		673,213,370
Mortgages		16,009,146
Oil, gas and other payments and royalties		30,681,357
Properties owned		151,945,904
Total investments, at cost		$1,698,436,175

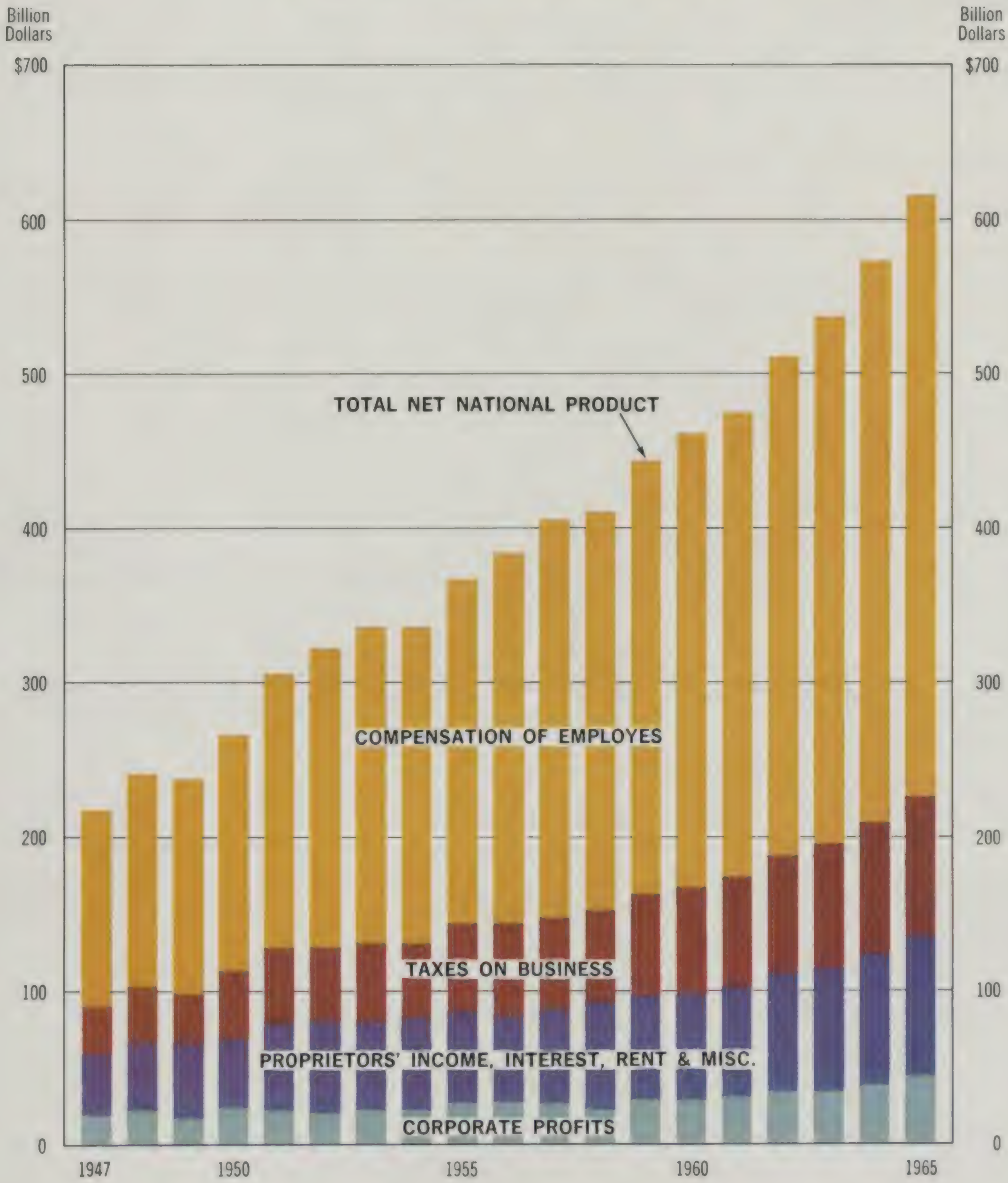
To the Board of Directors of
United States Steel and Carnegie Pension Fund:

In our opinion, the accompanying Statement of Assets, Statement of Changes During the Year and Summary of Investments present fairly the financial position of the combined pension trusts administered by United States Steel and Carnegie Pension Fund as trustee at December 31, 1965 and the changes therein during the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and included confirmation of the cash and investments owned at December 31, 1965 by certificates obtained from the depositaries and custodians, or by inspection, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

New York 10004
February 23, 1966

What is the U.S. Economy?



Source: U.S. Department of Commerce, year 1965 data partly estimated

For all their importance to private enterprise and the public interest, profits do not bulk large when put in perspective with all the components of the nation's output, as measured by net national product. In 1965, corporate profits amounted to about $45 billion, but the total value of the nation's net output came to about $617 billion. Although profits have improved recently, they have not kept pace with the rest of the economy, as evidenced by the chart above.

A MESSAGE FROM U. S. STEEL ON . . .

The Public Interest of Private Enterprise

The United States, with about 6 per cent of the world's population and land area, produces and consumes about 44 per cent of the Free World's goods and services, while maintaining freedom of choice of livelihood and consumption, and reaching enviable levels in education, health, leisure and culture. Yet how and why this oft-told American achievement has come about does not always seem to be understood or remembered.

For example, some people wonder who, among interested but diverse parties, really decides the public interest in private enterprise—producers, consumers, employes, government (Federal, state and local) or investors. Other people ask who speaks for American business—Main Street, Wall Street, Madison Avenue or Pennsylvania Avenue? Answers to these questions are important.

Certainly the panorama of business decisions—investing, managing, purchasing, hiring, researching, designing, producing, advertising, selling, transporting—ever competing, ever seeking new horizons, is lively, dynamic and truly dramatic.

For its part, U. S. Steel believes that these decisions must serve the public if business is to survive—to earn a profit; that law-abiding private enterprise and the public interest are highly complementary and interdependent—that in a free society you cannot have one without the other. It believes that the discipline—the master control—of our business system is competition in the marketplace (as was discussed in a message in the 1964 Annual Report); that competition is the real regulator of private enterprise, freely and constantly adjusting supply and demand through the price mechanism.

U. S. Steel believes, too, that the drive—the brain—of American free enterprise is the profit system; that the carrot and stick of profits and losses, actual and prospective, are the motivators and activators of business decisions and hence of national prosperity, job creation, economic growth and, to a very high degree, human progress. In other words, any company which doesn't serve the public interest goes broke.

And, perhaps most important of all, U. S. Steel believes that the profit-and-loss market system is based on individual incentive and individual choice secured by law and order—on freedom as opposed to coercion. It offers to every individual the maximum opportunity for self-expression and self-advancement.

The Private Enterprise Achievement

Dynamic private enterprise has been the prime mover behind America's economic miracle. Although more remains to be done, private enterprise has created a better life for all Americans and waged war on poverty since the very founding of the country. Americans seem to take it for granted that American business will year after year introduce new comforts, new conveniences, new drugs, new tools, new weapons for defense, new instruments for space—all this while also providing improving wages, salaries, fringe benefits and working conditions for employes.

Yet not one of these achievements would be possible without the enormous productivity of the U. S. econo-

The public interest. "... some people wonder who, among interested but diverse parties, really decides the public interest in private enterprise—producers, consumers, employes, government (s) or investors."

my—without the demonstrated ability of the private enterprise system to serve the public well, to advance the public interest.

What Is the Public Interest?

Most simply put, the public interest is the interest of the American people. This interest is highly individualistic. Some 200 million individuals with many more than 200 million interests make up the public interest, for each individual usually wears more than one hat. Invariably he is a consumer; he may also be a producer, an employe and an investor.

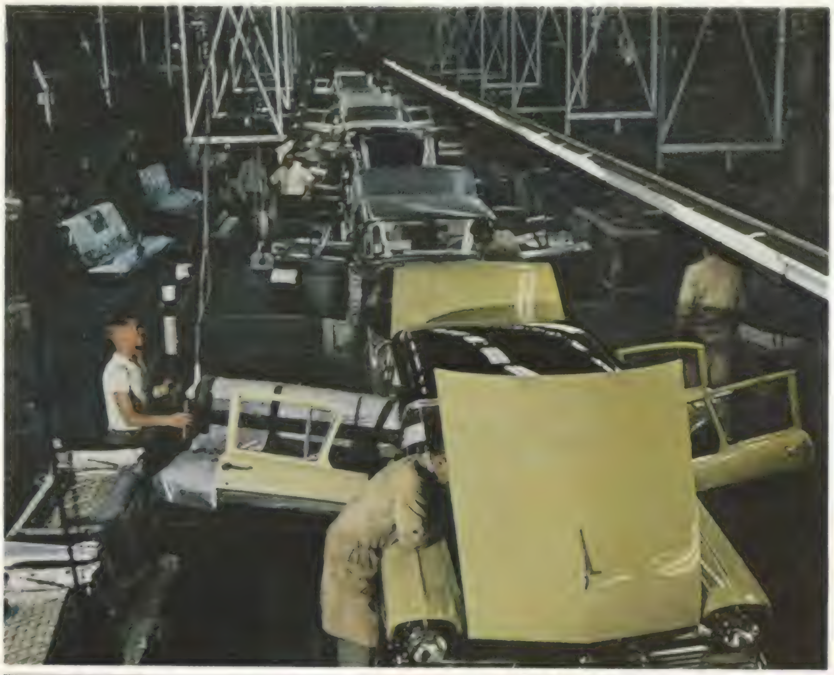
Moreover, these hundreds of millions of interests, while mutual and interdependent, compete. Producers compete, employes compete, investors compete and each of these groups enters claims for their interests in the revenues from customers. Governments also compete and enter claims for their interests not only on consumers but, in addition, on producers, employes and investors. From the reconciliation of all these common and competitive interests comes a thing called the public interest.

What Is Private Enterprise?

Private enterprise is freedom to produce and sell, and freedom to buy and consume; and the consumer, as well as the producer, is an integral part of the private enterprise system—indeed, the consumer also is in a way a private enterpriser. As an economic system, private enterprise is characterized by competition, open markets, private ownership and private initiative. Producers take production initiative on the basis of price and profit-and-loss signals essentially given by consumers.

Thus on the firing line of open competitive production is the business firm—an individual or a group of individuals. The firm pools the savings and plans of investors and the talents and energies of employes with the expectancy of meeting some particular demand of the consumers and with the hope of earning a profit for the owners. To prosper—indeed to survive—the firm must serve the public, that is, the public interest. But running a business is a risky operation as the public is a hard taskmaster, quick to switch its life-or-death patronage from any firm it deems lacking. Private enterprise is open to all comers. Anybody with an idea for enterprise and the requisite capital is free to start a business. Quite a few people, some even without any money of their own, have had such ideas. In fact, there are now some 11 million businesses, including farms, in the United States. The overwhelming proportion are sole proprietorships and partnerships and only about 11 per cent of the total are corporations.

Corporations provide a most effective vehicle for raising capital and for achieving specialized production efficiently. They are vital. For when we speak of economic growth, we are speaking essentially of business growth and, to a significant extent, of corporate growth. Corporations generate more than half of the national income in such forms as wages and salaries, dividends and interest payments, income taxes and reinvested earnings. Of the 56 million Americans who work for business, about 60 per cent work for corporations. Moreover, corporate employes receive around 75 per cent of all private compensation.

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Future John Hancock Center in Chicago, financed by savings of "indirect investors who . . . invest in American business . . ."

The public interest may also be viewed in terms of the interests and roles of each of the major participants in the private enterprise system, including the consumer, employe, government and investor.

The Consumer's Interest

The consumer's interest in private enterprise is in getting more and more for less and less—with maximum freedom of choice. So naturally the consumer—Mr. Everybody, the entire American public—is keenly interested in private enterprise, because private enterprise is the consumer's servant, and consumer choice is the heart of private enterprise.

Thus through the cash register or company order book, through his power of purchase or non-purchase, the customer speaks to and—in the sense that actions speak louder than words—for American business. Moreover, he possesses virtually an absolute veto over every major decision of a firm. He largely decides the public interest in private enterprise because, collectively, he is the public—as well as a key participant in the business system.

His power is crucial. Every cost of doing business—every tax, wage, salary, fringe benefit, material cost, interest payment, and so on—must be ultimately sought from one and only one source, the cost-aware customer.

His purchase therefore sanctions a firm's prices, makes production and jobs possible, and sustains the very life of the business. In effect he assigns profits to those firms he deems in his interest—the public interest—and these firms prosper and expand. At the same time he assigns losses to those firms he deems not in his interest—the public interest—and these firms, unless they mend their ways, weaken and eventually fail. Thus, under private enterprise it is said, wisely, that the customer is king—the consumer is sovereign.

To be sure, consumer sovereignty is not absolute; the producer also has freedom of choice. He can choose his industry or field of endeavor, where and how he wishes to operate, the prices he would like to get, but in the long run he cannot sell below cost nor above competitive prices. Nevertheless, it is the consumer who ultimately decides in effect what and how much will be produced, by whom, and at what price it will be sold.

Another point on the consumer's interest: The marketplace is democratic to an almost unimaginable degree in the political realm. Every day is Election Day in the market. Each purchase is a vote, and a company's sales is its tabulation of consumers' ballots, the customers' dollars. For each company there is neither tenure nor a fixed term of office. A big business can be voted small, a small business can be voted big, and any business can be voted out of office.

So through his dollar votes the consumer, who may also be an employe or investor or both, ever adjusts supply—and suppliers—to demand, to the public interest.

The Employe's Interest

The employe's interest in private enterprise is his job, for it is the source of his well-being. He too is keenly interested in maximum freedom of choice. He is born a free man in a country in which opportunity and equality of opportunity are unexcelled in the world. He can choose his career from available opportunities, decide how hard he wishes to pursue it, select where to live and work. These are his personal decisions.

Naturally, he is also interested in business growth, which means job opportunity growth, and wage and salary growth. American wage and salary scales are far and away the highest in the world, and the job-sustaining and job-creating ability of the private enterprise system, for all the talk of automation, has never been in greater evidence.

A 30-story high offshore drilling rig — one of the new and better tools "... which make job opportunities, high productivity and high wages a reality ..."

He should likewise be interested in profits. Some assert that wages and profits are in opposition, that profits exist only at the expense of wages. Nothing could be further from the truth. Private enterprise is based on competition and cooperation —not conflict. Labor and capital are in natural partnership—each is dependent upon the other. And from the employe's point of view, the more capital the better; and since profit attracts capital, the more profit the better. For capital is the key to productivity, and out of improving productivity alone comes all continuing real wage and salary improvement as well as gains to consumers, governments and investors.

Little wonder, then, that capital investment per employe in America clearly exceeds capital investment per employe in all other countries. It follows that American wages and employe benefits arise out of America's tremendous capital productivity which, in turn, arises out of the private enterprise system. Plainly, these wages and benefits—and job opportunities—are not bestowed by benevolent governments nor, for that matter, by aggressive union leaders or magnanimous business employers.

The consumer in the final analysis is the real employer; his purchase creates job opportunities. It is his dollar that meets the payroll. It is his non-purchase which rejects uneconomic wage scales or shoddy workmanship, and workers so rejected may well find little consolation in being the highest-priced and most unemployed workers in the world. So, in a very real sense, the employe doesn't work for the employer; he works for the consumer.

Thus job-creation will continue to go on, provided wage rates are responsive to the consumer's interest; provided savers and investors, in their investment function of providing tools, have the incentive to go forward; and provided the intricate price mechanism that governs the billions of daily transactions through innumerable continually changing prices in the American economy remains self-governing.

The Government's Interest

The government's interest in private enterprise should be in the vitality of business. Business can prosper, economic growth can continue and tax revenues can be sustained only when essential governmental duties are properly performed. Such duties include maintaining law and order, safeguarding property and contracts, and securing the individual from violence from within or without.

But governments can overreach themselves and set back the cause of "Life, Liberty and the pursuit of Happiness." For the tendency of governments throughout history has been to assume supreme economic insight, to

inflate the money supply, to introduce rigidity ("stability") into economic affairs, to favor some groups at the expense of others, to fix "reasonable" prices and "reasonable" profits; in short, to intervene in normal everyday business decisions and upset the entire competitive mechanism, all too frequently in the name of "the public interest."

The Investor's Interest

The investor's interest in private enterprise is in putting his money to work profitably. This is vital to him, to private enterprise, to government, and to the entire American society. He is one of millions of direct investors, including 20 million shareholders, who have supplied job-creating capital to business through risking their savings. In addition, he is one of more than 100 million indirect investors who, through their savings deposits, insurance policies and pension fund participation, invest in American business.

The investor's key problem: He must decide where and how to invest. In this he is motivated by powerful, if quite different, drives—the hope of gain and the fear of loss. The investor readily recognizes that management plays a crucial role, that enterprise and risk go hand in hand, that today's return on operations could turn into tomorrow's loss.

Importantly, however, the investor is not committed to his investments. He is also a free agent—most willing to hold or even increase his investments when he deems their yields right and risks reasonable. But, at the same time, whenever he thinks yields are unsatisfactory or risks too great, he can switch his investments—sell his stocks, bonds or properties and use the proceeds for other investments—or, if he lacks confidence in the future, he may not invest at all. In any event, investing or disinvesting, he keeps a constant watch on profitability which, as noted, is essentially a signal from consumers.

Through the profit incentive, then, comes a mighty flow of invested savings: the capital that makes modern private enterprise possible; that keeps it on its toes; that provides employes with tools—factories and machinery—which make job opportunities, high productivity and high wages a reality; that enables producers to furnish the goods and services which the consumer desires at prices he is willing to pay. Thus three factors of overriding importance govern the investor's interest: savings, confidence in the future and the prospect of profit.

Thus, private enterprise and the decisions of private enterprise—decisions shared by all Americans—inherently and most democratically reflect the public's wishes, the public's interest. Interference with the decisions of private enterprise in the name of the public interest thus amounts, ironically, to interference with the public interest. For the decisions of private enterprise are the decisions of the people, by the people, for the people.

This was emphasized by President Kennedy in his special news conference on September 26, 1962, when he said: "The free market is a decentralized regulator of our economic system. The free market is not only a more efficient decision maker than even the wisest central planning body, but even more important, the free market keeps economic power widely dispersed. It thus is a vital underpinning of our democratic system."

Mr. Blough addresses stockholders at U. S. Steel's Annual Meeting in Chicago on May 3, 1965.

Organization

Directors

Charles H. Bell
Roger M. Blough*†
Harllee Branch, Jr.
Cleo F. Craig*†
John A. Fuller
Henry T. Heald*
Clifford F. Hood*
Arthur A. Houghton, Jr.*†
C. Jared Ingersoll*
Franklin J. Lunding*
John M. Meyer, Jr.*†
George S. Moore
David Packard
Stuart T. Saunders
Joseph P. Spang, Jr.*
Robert C. Tyson*†
Henry S. Wingate*†
Leslie B. Worthington*†

*Member of Executive Committee

†Member of Finance Committee

Stuart T. Saunders was elected May 3, 1965.
Enders M. Voorhees retired May 3, 1965.

Officers

Roger M. Blough	*Chairman of Board of Directors*
Leslie B. Worthington	*President and Chairman of Executive Committee*
Robert C. Tyson	*Chairman of Finance Committee*
John S. Tennant	*General Counsel*
William H. Lang	*Administrative Vice President and Treasurer*
Wilbert A. Walker	*Administrative Vice President and Comptroller*
Benjamin L. Rawlins	*Secretary and Assistant General Counsel*

EXECUTIVE VICE PRESIDENTS

R. Conrad Cooper — *Personnel Services*
Edwin H. Gott — *Production*
Arthur V. Wiebel*—*Engineering and Research*
Norman B. Obbard — *International*
John Pugsley — *Accounting*
Richard F. Sentner — *Commercial*

*Elected effective March 1, 1966, succeeding Stephen M. Jenks, retired.

U. S. Steel's Board of Directors consists of eighteen members, three of whom are also officers of the company. Beginning in 1966, directors are elected annually by the stockholders. The Board regularly meets monthly, as does an Executive Committee, composed of twelve Board members, which meets between Board meetings. The Finance Committee of seven members of the Board meets twice monthly. The Operations Policy Committee, consisting of the three officer-directors, the executive vice presidents and the general counsel, meets weekly. Information about directors is included in the proxy statement sent to stockholders with the notice of annual meeting.

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R. Heath Larry—*Assistant to Chairman, Board of Directors*

Phelps H. Adams	*Public Relations*
John E. Angle	*Production*
Marcus J. Aurelius	*Commercial*
James B. Austin	*Eng. and Research*
Charles B. Baker	*International*
Russell M. Braund	*Accounting*
Bennett S. Chapple, Jr.	*Commercial*
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James C. Gray	*Production*
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Austin J. Paddock	*Production*
J. Warren Shaver	*Personnel Services*
Edgar B. Speer	*Production*
Edwin L. Tindall	*Eng. and Research*
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Henry J. Wallace	*Commercial*
Patterson S. Weaver	*Eng. and Research*

VICE PRESIDENTS

Edward C. Myers—*Assistant to President*

Christian F. Beukema
Henry T. Blake
Loring S. Brock
Dennis J. Carney
David A. Challis, Jr.
Robert C. Colbaugh, Jr.
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Stephen P. Curtis
J. Michael Curto
Paul C. Ely
Bay E. Estes
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Oscar T. Marzke
J. D. McCall
Robert B. Mears
Maxwell D. Millard
Howard J. Mullin
Edward A. Murray
Robert B. O'Connor
James L. Ortner
Gordon A. Paul
David M. Roderick
Lewis W. Roe
Ralph W. Seely
Richard W. Simon
Harvey M. Snook
C. Thomas Spivey
John W. Todd, Jr.
James F. Traa
Kenneth L. Vore
William G. Whyte

Leroy L. Lewis, *General Solicitor*
Merrill L. Heald, *Assistant General Solicitor*
Merrill Russell, *Assistant General Solicitor*
Robert R. Wertz, *Assistant General Solicitor*

William H. Peterson, *Economist*

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Divisions

	PRESIDENT
American Bridge Division, *#5 Gateway Center, Pittsburgh, Pa. 15230*	J. D. Rollins
Oilwell Division, *2001 North Lamar Street, Dallas, Texas 75202*	M. F. Hazel
USS Chemicals, *Grant Building, Pittsburgh, Pa. 15219*	W. K. Menke
United States Steel Homes Division, *2549 Charlestown Road, New Albany, Ind. 47150*	F. J. Stump
United States Steel Products Division, *1271 Ave. of the Americas, New York, N. Y. 10020*	C. R. Justice
United States Steel Supply Division, *13535 South Torrence Ave., Chicago, Ill. 60633*	J. H. Morava
Universal Atlas Cement Division, *100 Park Avenue, New York, N. Y. 10017*	R. C. Moffitt

Principal Subsidiaries

Bahama Cement Company, *Post Office Box 100, Freeport, Grand Bahama Island*	J. E. Jenks
Bessemer and Lake Erie Railroad Company, *P.O. Box 536, Pittsburgh, Pa. 15230*	F. W. Okie
Birmingham Southern Railroad Company, *Parker Building, Fairfield, Ala. 35064*	C. D. Cotten, Jr.
Carnegie Natural Gas Company, *3904 Main Street, Munhall, Pa. 15121*	T. H. Evans
Duluth, Missabe and Iron Range Railway Co., *Wolvin Building, Duluth, Minn. 55802*	F. W. Okie
Elgin, Joliet and Eastern Railway Co., *P.O. Box J, Chicago, Ill. 60690*	F. W. Okie
Navigen Company, *Post Office Box 809, Nassau, Bahamas*	J. S. Martin
Navios Corporation, *Post Office Box 796, Nassau, Bahamas*	J. S. Martin
Ohio Barge Line, Inc., *P.O. Box 126, Dravosburg, Pa. 15034*	M. S. Toon
Orinoco Mining Company, *Apartado 2736, Caracas, Venezuela (Caracas Office)*	C. G. Hogberg
Pittsburgh & Conneaut Dock Company, *Conneaut, Ohio 44030*	K. C. Stevens
Quebec Cartier Mining Company, *Port Cartier, Province of Quebec, Canada*	L. J. Patterson
Union Railroad Company, *P.O. Box 536, Pittsburgh, Pa. 15230*	F. W. Okie
United States Steel International (New York), Inc., *100 Church St., New York, N. Y. 10008*	L. S. Brock
Warrior & Gulf Navigation Company, *P.O. Box 397, Chickasaw, Alabama 36611*	M. S. Toon

TRANSFER AGENTS — COMMON STOCK

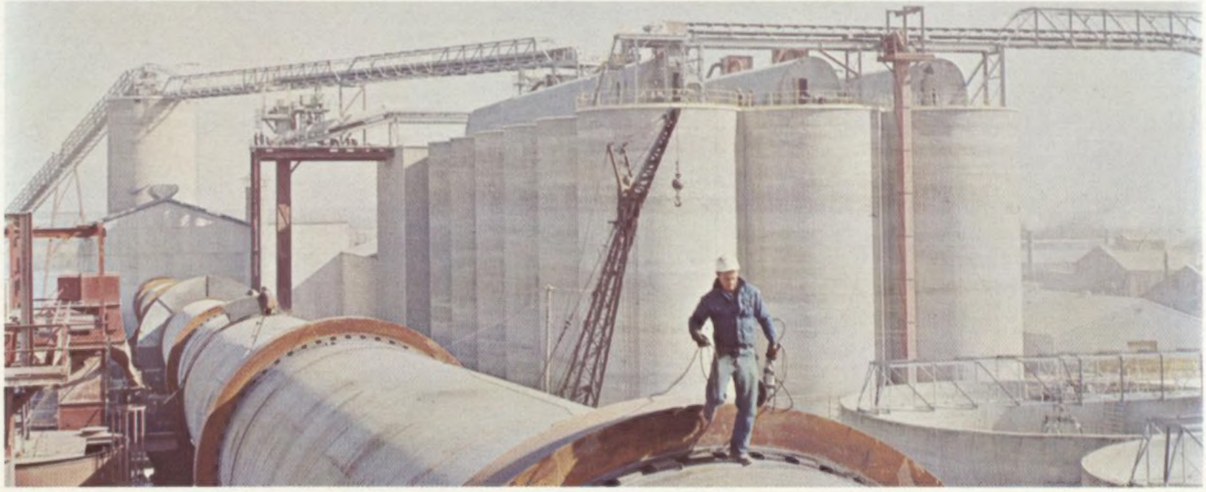
Office of the Corporation
71 Broadway, New York, N. Y. 10006

Continental Illinois National Bank and Trust Company of Chicago
231 South LaSalle Street, Chicago, Ill. 60690

REGISTRARS — COMMON STOCK

Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, N. Y. 10015
The First National Bank of Chicago, Dearborn, Monroe and Clark Streets, Chicago, Ill. 60690

New look on "Old Man River." This Universal Atlas Division single-kiln cement plant recently commenced operation at Hannibal, Missouri.



New "ready made" USS heavyweight column sections are economical—go up fast and save time on big jobs.

New USS SOLO Single Strand Barbed Wire installs easily, stays taut and is competitive in price with imported barbed wire.

Magnetized playing cards, heating panels, a "mouse house" for laboratory animals, children's games—some of the products made of new USS Steel Foil.

Innovation...

Innovations from U. S. Steel provide new steels and new ideas for using steels to serve the constantly changing needs of customers. In 1966, steel users can expect more new developments from United States Steel... where the big idea is innovation.

United States Steel